

ASX AND NZX RELEASE

MICHAEL HILL INTERNATIONAL FY2018 RESULTS

Brisbane, 26 August 2018: Michael Hill International (ASX and NZX: MHJ) has announced its financial results for the full year to 30 June 2018.

Key Financial Results

- Operating revenues from continuing operations increased by 4.4% to \$575.5m (FY2017: \$551.1m)
- Group same store sales from continuing operations increased by 0.4% to \$526.0m (FY2017: 2.1% increase)
- Statutory net profit after tax declined 85.9% to \$4.6m (FY2017: \$32.6m), with one-off costs, including the Emma & Roe and US closure costs, materially impacting the result
- Group net profit after tax from continuing operations declined 21.1% to \$34.8m (FY2017: \$44.1m),
- Normalised earnings before interest and tax declined 16.6% to \$40.1m (FY2017: \$48.1m)
- Normalised earnings before interest and tax for continuing retail segments (Australia, New Zealand and Canada) declined 1.6% to \$89.1m (FY2017: \$90.5m)
- Net operating cash flow increased by 38.1% to \$54.9m (FY2017: \$39.8m)
- Net debt reduction of 28.9% to \$28.0m (FY2017: \$39.4m)
- Equity ratio reduced to 50.4% (FY2017: 52.0%)
- e-commerce sales increased by 57.4% to \$10.3m (FY2017: \$6.5m)
- Branded collection sales increased to 18.0% of total product sales, up from 14.2% on the prior year
- Dividend for the year of AU 5.0 cents per share (FY2017: AU 5.0 cents per share)

Operational Performance

- Completion of the Group's strategic review and the identification of five key strategic shifts
- Decision to exit the US and Emma & Roe businesses to focus on the core Michael Hill brand in three markets
- Revenue growth achieved across continuing operations for the Michael Hill brand
- New stores opened in all three continuing segments of Australia, New Zealand and Canada
- Continued investment in technology as the Company migrates to a highly integrated IT environment

Commenting on the announcement of the Company's full year results, Chief Executive Officer, Phil Taylor, said: "The period was one of recalibration and repositioning for the Group, which included the exit of the US and Emma & Roe businesses. While the cost of exiting these businesses had a material one-off impact on the financial result, Michael Hill is a stronger and more resilient business today with a clear strategy for long-term growth.

"The Company also made significant progress on its strategy to reposition Michael Hill from a traditional retailer to a differentiated omni-channel brand. This approach is planned to differentiate the Michael Hill brand, products and experiences to create a true point of difference and to provide a platform that is designed to support growth across new channels and markets.

"Five strategic shifts were identified with a focus on delivering a more sophisticated omni-channel experience through better integration of digital platform and stores, improved customer experiences, growth in branded collections, increased brand loyalty and positioning, and enhanced operational capabilities.

"Delivery on this strategy was predicated on a number of actions during the past year, including a re-focus on the core Michael Hill brand following the closure of the US and Emma & Roe businesses, and the strengthening of the balance sheet with higher operational cash flows achieved and debt levels reduced.

"Investment in e-commerce resulted in continued strong growth with online sales increasing to \$10.3m and now account for 1.8% of total Group revenues. Further growth in online sales is planned as additional investment is made in our omni-channel capabilities and digital infrastructure.

“Branded collections also delivered another pleasing result to now account for 18% of total product sales. A greater strategic emphasis will be placed on our branded collections with the opportunity to enhance designer capability, and to create unique products that meet growing customer demand for differentiation,” Phil said.

FY2018 Business Performance

The Group reported a statutory net profit after tax (NPAT) of \$4.6m for the full year ending 30 June, which was materially impacted by a combination of the one-off \$25.5m closure costs for the US and Emma & Roe businesses and a performance deterioration in these segments once the closures were announced. Excluding these businesses and exit costs, the Group reported NPAT for continuing operations of \$34.8m.

Normalised earnings before interest and tax (EBIT) for the period was \$40.1m, with the decline of 16.6% largely attributed to increased investment in the business and deterioration of the US and Emma & Roe segments. The Company reported EBIT from the three core retail segments of Australia, New Zealand and Canada of \$89.1m.

Group revenues for continuing operations rose 4.4% for the full year to \$575.5 million, with same store sales for continuing operations increasing by 0.4% to \$526.0m. The Company realised the benefits of its increased investment in e-commerce with strong online revenue growth of 57.4% to \$10.3m. Online sales now account for 1.8% of total Group revenues and are expected to grow as the Company invests further into its digital offering.

The Company strengthened its balance sheet during the period by reducing net debt to \$28.0m from \$39.4m in FY2017, while net operating cash flows increased by 38.1% from \$39.8m to \$54.9m. With a robust balance sheet, the Company is in a strong position to invest in the business and to reposition Michael Hill from a traditional retailer to a differentiated omni-channel brand.

The Company will maintain its total dividend for the year at AU5.0¢ per share, in-line with FY17. The final dividend of AU2.5¢ per share will be paid on 28 September 2018, unfranked in Australia and fully imputed in New Zealand.

The Company ended the year with 312 stores, including six remaining Emma & Roe stores.

Australian Retail Segment – Michael Hill

The Australian segment increased revenues by 1.2% to \$325.7m and improved its gross profit margin from 62.6% to 63.3% during the period. However, challenging retail conditions remain in Australia and resulted in a decline of 0.9% in same store sales and EBIT reducing by 5.9% to \$48.6m from \$51.7m.

The Group plans to invest additional capital and management resource into strengthening its Australian operations. A decision was made during FY18 to divide the management of the large Australian segment into two businesses, which will each be led by a Retail General Manager with their own regional management teams.

In FY19, the Australian segment offers potential for improved EBIT performance through a combination of increased productivity from the retail teams, improved margins, property portfolio refinements, online revenue growth, new product collections and an enhanced customer experience.

NZ Retail Segment – Michael Hill

The New Zealand segment recorded flat EBIT for the period at NZ\$27.8m and growth in revenues of 2.7% to NZ\$125.2m. NZ segment performance saw an increase in same store sales of 2.3% and an increase in gross profit margin by 0.3%.

The New Zealand business is expected to continue to perform well and will benefit from increased online revenue, extended product offering, improved margins, a continued refinement of the property portfolio and improved cost efficiencies, together with exploring opportunities to tap the growing Asian consumer market.

Canada Retail Segment – Michael Hill

The Group’s continued investment in Canada delivered another strong performance with EBIT increasing 17.9% to a record CA\$14.6m, along with an increase in revenues by 16% to CA\$130.8m and same store sales growth of 3.8%.

Canada has opportunities for further store growth and by maturing its store portfolio, online revenue growth, optimisation of its in-house credit program, and increased productivity of its retail teams, the Company seeks to build profitability.

Strategic Review

In the latter half of the year, Board and management conducted a strategic review to identify performance improvements and opportunities for the Group. The review identified five strategic shifts to deliver on the Group's plan to reposition Michael Hill from a traditional retailer to a differentiated omni-channel brand. FY19 is viewed as a foundational year with the benefits of the strategy to be progressively realised over time.

This will require the investment of additional unallocated corporate costs of \$3m in the coming FY19 year, with total planned capex across new and refurbished stores, IT systems, tools and infrastructure of \$25m (2017-18: \$24.6m).

A dedicated project management team has also been established to execute and manage initiatives in support of the strategy, while the Group will add executive capabilities through a Chief Operating Officer and Chief People Officer.

The five strategic shifts identified are:

1. **Omni-channel:** *Building capability to deliver a seamless customer experience.*
2. **Customer loyalty:** *Building data capability to better service customers.*
3. **Unique branded collections:** *Escalate our growth of branded collections.*
4. **Brand position:** *Strengthen and grow brand loyalty.*
5. **Operational excellence:** *Enhance execution capability and agility.*

Outlook

The Company is committed to opening a minimum of 10 new stores in FY19 for the Michael Hill brand in Australia, New Zealand and Canada, subject to site availability.

Underpinned by the five strategic shifts, it is planned that the differentiated offer will deliver growth in all markets and take market share. The business will be focussed on quality of earnings and continued strong gross margin performance.

E-commerce revenue is expected to continue to grow steadily in coming years as the Company refines its offer and optimises its online channels. Further planned investment in e-commerce capability will take full advantage of this growth opportunity.

Continued strong operational cash flows would enable further debt reduction and capital investment levels to be maintained, while also leaving the Group well placed to explore opportunities aligned with the five strategic shifts.

ENDS

Important information

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

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.

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.

Analyst and investor call

An analyst briefing on the results will be held on Monday 27 August at 1.00pm (Brisbane, Qld time).

The webcast link for the conference call is <https://edge.media-server.com/m6/p/jzp4h9s6>

Dial-in details to the briefing can be found on the 'events' section of the website at <http://investor.michaelhill.com>.

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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 has over 300 stores globally in 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:

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