



michael hill.
INTERNATIONAL LIMITED

FY19H1 RESULTS

31 DECEMBER 2018

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Michael Hill – FY19H1 Results

- CHAIR'S OVERVIEW
- FINANCIAL RESULTS
- CEO'S UPDATE



CHAIR'S OVERVIEW

- Since the beginning of 2018, Michael Hill International (MHJ) has been working through a significant program of transformation to recalibrate its future strategy:
 - **Prioritise strategic focus on the Michael Hill Brand** – closure of Emma & Roe and US
 - **Five strategic shifts critical to sustainable growth** – better integration of digital platform and stores; enhanced customer experiences; develop branded collections; increase brand loyalty and positioning; and enhanced operational capabilities
- **The strategic journey is underway:**
 - **e-commerce** – up 68.3% to \$9.5m
 - **Branded collections** – representing more than 20% of total sales
 - **Discounting** – shift away from a high frequency of deep discount event days during July to October. A more integrated approach during the Christmas period delivered a turnaround.
- **The appointment of new CEO Daniel Bracken:**
 - **The right appointment** – deep retailing operations and business transformation skills
 - **Enhancing the strategy** – since beginning in mid-November, Daniel has already identified further opportunities and initiatives



Knots
BY CHRISTINE HILL

KEY PERFORMANCE RESULTS



\$19.5m
NET PROFIT
AFTER TAX



62.6%
GROSS MARGIN



\$29.6m
UNDERLYING EBIT

\$9.5m
68.3% E-COMMERCE
GROWTH

2.5c
DIVIDEND
2018: 2.5c



\$20.7m
NET DEBT
2018: \$23.0m

20.0%
BRANDED COLLECTION
SALES

\$315.4m
GROUP REVENUE

6
NEW STORES
OPENED

GROUP RESULTS

- Statutory net profit after tax increased by 125% to \$19.5m (FY18H1: \$8.7m)
- Statutory earnings before interest and tax increased by 88% to \$28.5m (FY18H1: 15.1m)
- Underlying earnings before interest and tax declined by 16% to \$29.6m (FY18H1: \$35.2m)
- Operating revenues declined by 2.7% to \$315.4m (FY18H1: \$324.1m)
- Gross margin was stable at 62.6% (FY18H1: 62.7%)
- Interim dividend of 2.5 cents per share, in line with prior year, unfranked and fully imputed declared as conduit foreign income

For the year ending	AUD	Dec-18	Dec-17	move
Revenue		315.4m	324.1m	(2.7)%
Gross margin		62.6%	62.7%	-0.1%
Underlying EBIT		29.6m	35.2m	(16.0)%
Underlying EBIT as a % of revenue		9.4%	10.9%	-1.5%
Statutory NPAT		19.5m	8.7m	125%
Total stores open		311	347	(36)

MICHAEL HILL AUSTRALIA

RETAIL SEGMENT

- The segment was heavily impacted by the shift away from a high frequency of deep discount event days during FY19Q1, although improvements were made over the Christmas trading period
- Operating revenues declined by 5.1% to \$175.5m
- EBIT slowed to \$24.6m
- Gross margin was stable at 63.0%
- To drive improved performance, the company adjusted its management structure

For the year ending	AUD	Dec-18	Dec-17	move
Revenue		175.5m	185.0m	(5.1)%
Gross profit		110.5m	117.5m	(5.9)%
Gross profit as a % of revenue		63.0%	63.5%	-0.5%
EBIT		24.6m	33.0m	(24.4)%
EBIT as a % of revenue		14.0%	17.6%	-3.6%
Same store sales		163.5m	179.3m	(8.8)%
Total stores open		171	172	(1)

MICHAEL HILL CANADA

RETAIL SEGMENT

- Revenue grew by 0.9% to CA\$74.4m
- EBIT declined by 17.4% to CA\$8.6m, due to increased investment in the company's workforce and higher labour costs arising from mandatory indexation and market forces
- Gross margin was stable at 61.8%
- Canada remains a core growth opportunity for the business, with a heightened focus on increased productivity being undertaken for the second half

For the year ending	CAD	Dec-18	Dec-17	move
Revenue		74.4m	73.4m	0.9%
Gross profit		46.0m	45.8m	0.3%
Gross profit as a % of revenue		61.8%	62.1%	-0.3%
EBIT		8.6m	10.4m	(17.4)%
EBIT as a % of revenue		11.5%	14.1%	-2.6%
Same store sales		69.2m	69.3m	(0.1)%
Total stores open		85	83	2

MICHAEL HILL NEW ZEALAND

RETAIL SEGMENT

- Revenue of NZ\$65.8m were down 5.6% from NZ\$69.7m in the prior year
- EBIT of NZ\$15.1m, down 4.5% from prior year
- Gross profit margin lifted 100 basis points for the half to 62.7%
- A focus on retail costs partially offset the impact of a decline in headline sales

For the year ending	NZD	Dec-18	Dec-17	move
Revenue		65.8m	69.7m	(5.6)%
Gross profit		41.2m	43.0m	(4.1)%
Gross profit as a % of revenue		62.7%	61.7%	1.0%
EBIT		15.1m	15.8m	(4.5)%
EBIT as a % of revenue		22.9%	22.6%	0.3%
Same store sales		59.7m	62.7m	(4.8)%
Total stores open		53	53	-



CEO's UPDATE

- **A significant opportunity to modernise our retail offering:** a new operating model; brand, product, store and e-commerce initiatives; and cost efficiencies
- **The five strategic shifts provide the framework:** focus will be on differentiation and execution
- **Talented and experienced management team in place:** new Chief Operating Officer, Andrea Slingsby, and Chief People Officer, Joanne Matthews bring deep retail experience and skills to MHJ
- **Continual operational evolution:** CEO and Executive team will continually seek ways to enhance the strategy and deliver on new initiatives to accelerate MHJ's growth
- Moving forward, there are three integrated pathways to growth:
 - **Restoring financial performance** – being a foundationally strong and modern retailer
 - **Resetting and enhancing our agenda** – being disciplined and focused on core strategic initiatives that will deliver the most value for our customers, and the growth of MHJ
 - **Delivering a long-term strategy for sustainable growth** – by strengthening our brand and retailing capabilities, MHJ will then seek to capitalise on new growth opportunities

SUMMARY OF KEY INITIATIVES (1/2)

1. **Execution in January 2019 of a cost reduction programme delivering \$5 million in annualised savings. Initiatives targeting a further \$5 million in annualised cost savings.**
 - Initial cost reduction programme focussed on head office overheads
 - Further initiatives targeting annualised savings across a range of areas
2. **A more sophisticated and integrated customer-led retail operating model**
 - Leverage revenue and operational synergies through closer alignment of the products sold in stores, with the marketing and manufacturing functions
3. **Acceleration of the branded collections strategy**
 - Leverage opportunities to aggressively grow branded collections beyond 20% of sales and develop a majority of exclusive collections in specific categories
4. **Reinvigorate the company's merchandising and inventory management end-to-end processes**
 - Optimising the end-to-end process covering the full product lifecycle and embedding the required capabilities, to deliver more compelling products to customers
 - Ensuring product volumes and styles better reflect targeted market segments, store opportunities and promotions

SUMMARY OF KEY INITIATIVES (2/2)

5. Productivity improvements in the Canadian market

- Focus on retail fundamentals to deliver a considerable uplift in store productivity, consistent with the Australian and New Zealand markets

6. Targeted activation of scalable digital and omni-channel strategies

- Shift from a high-touch 1-on-1 service, to consumers choosing their own journey supported by digital enablement

7. Initiatives to drive greater efficiencies across the global store network and supply chain

- Productivity improvements key to being a foundationally strong retailer
- Greater efficiencies across the supply chain, from logistics, product design, distribution, manufacturing and inventory
- Better optimisation of the global store network and stabilisation of underperforming stores

THANK YOU

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