



michael hill®

INTERNATIONAL LIMITED

AGENDA

- History and overview
- How we operate – what makes us different
- Growth strategy
- First quarter trading update
- Q & A

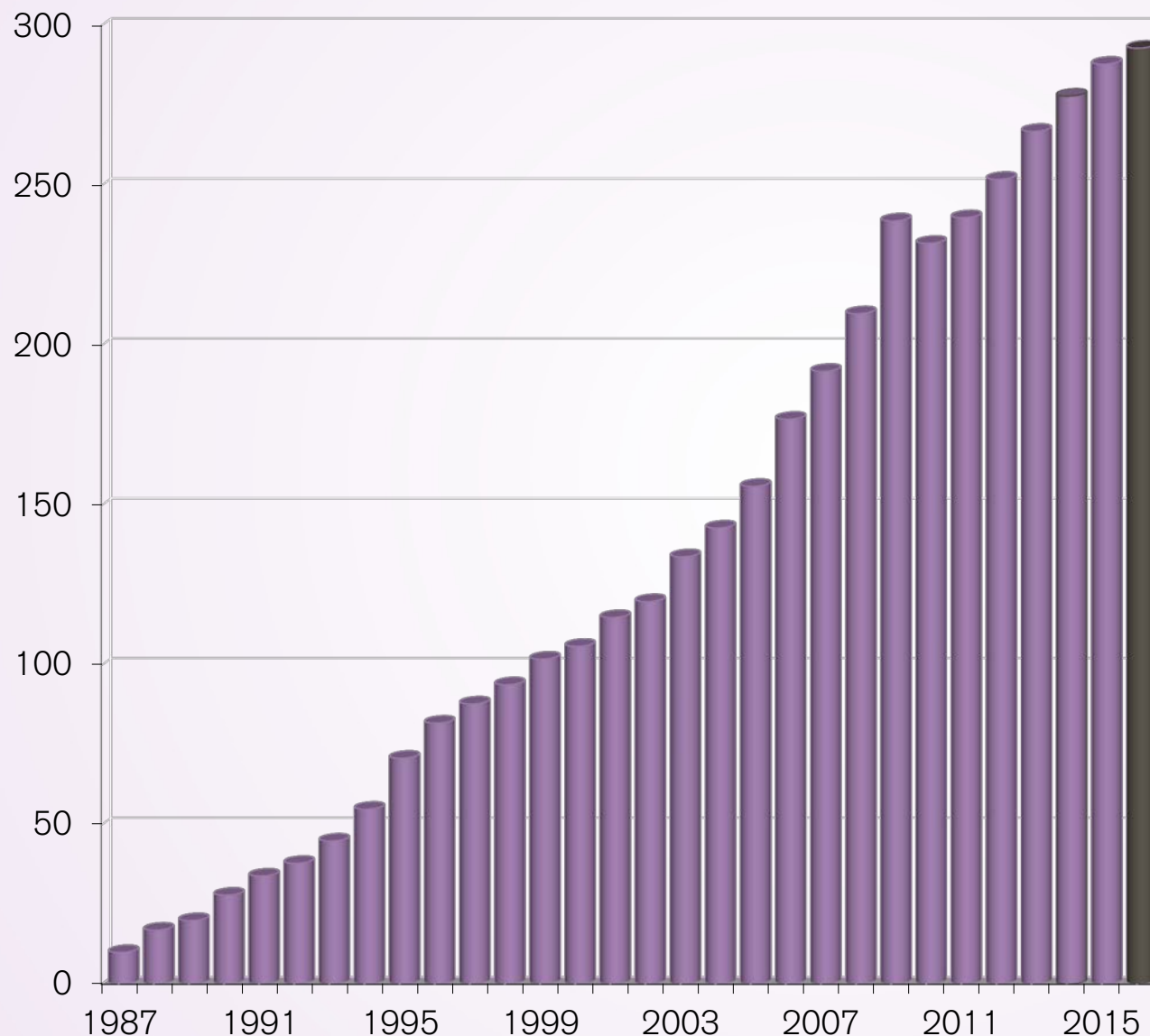
HISTORY & OVERVIEW

HISTORY

- Sir Michael Hill opened the first store in Whangarei, New Zealand in 1979
- MHI listed on the NZX in July 1987 and opened the first Australian store that year
- Head office, executive team, distribution and retail support relocated to Brisbane in 2004
- IP transferred to Australia in 2008
- Functional and reporting currency changed to AUD in 2013/14 to comply with IFRS
- Approximately 60% of revenue and stores located in Australia in FY16
- Growth opportunities and management focus for medium term will primarily be on:
 - Australia
 - Canada
 - United States
 - Emma & Roe



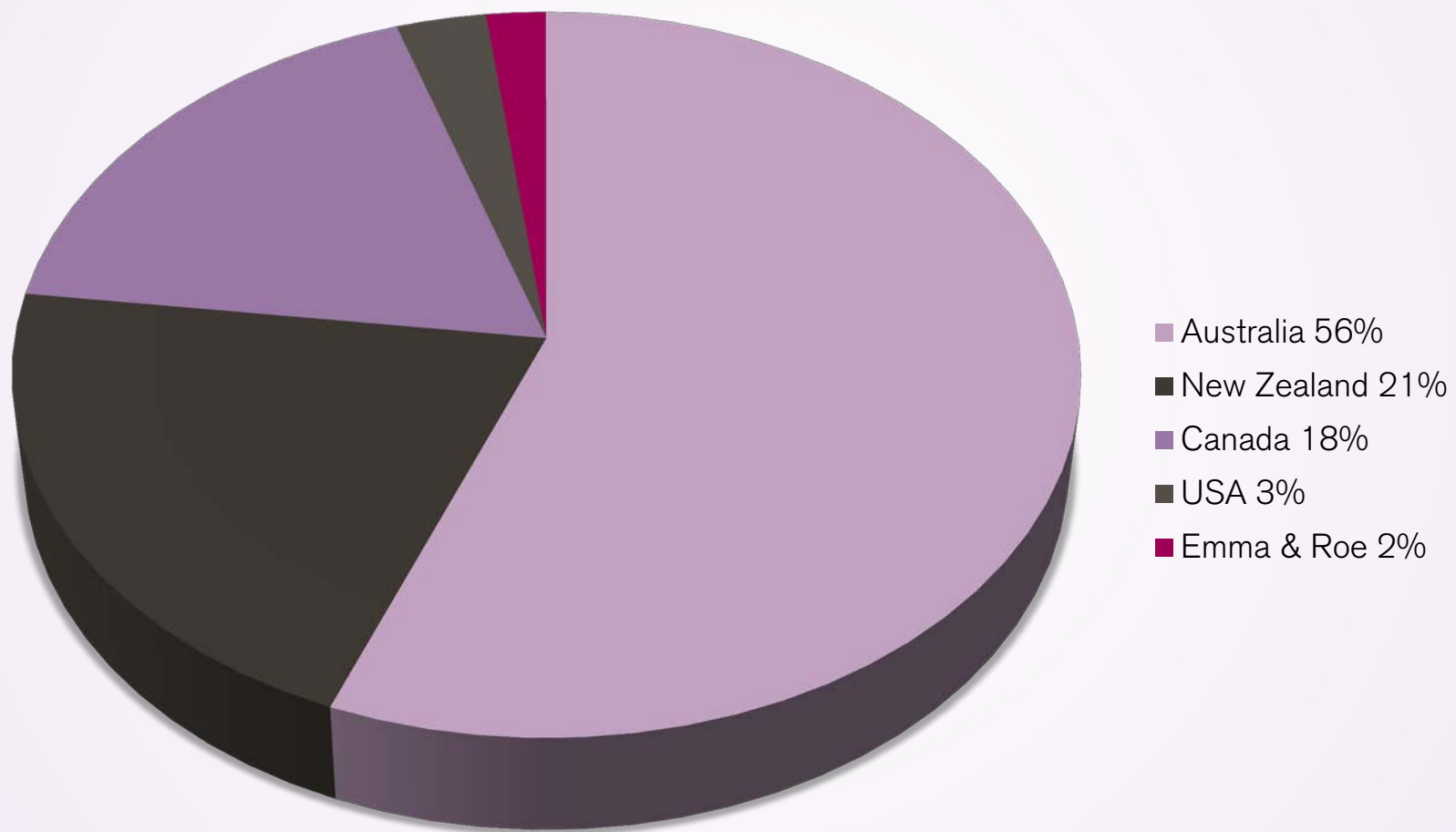
TOTAL MICHAEL HILL STORES OPERATING



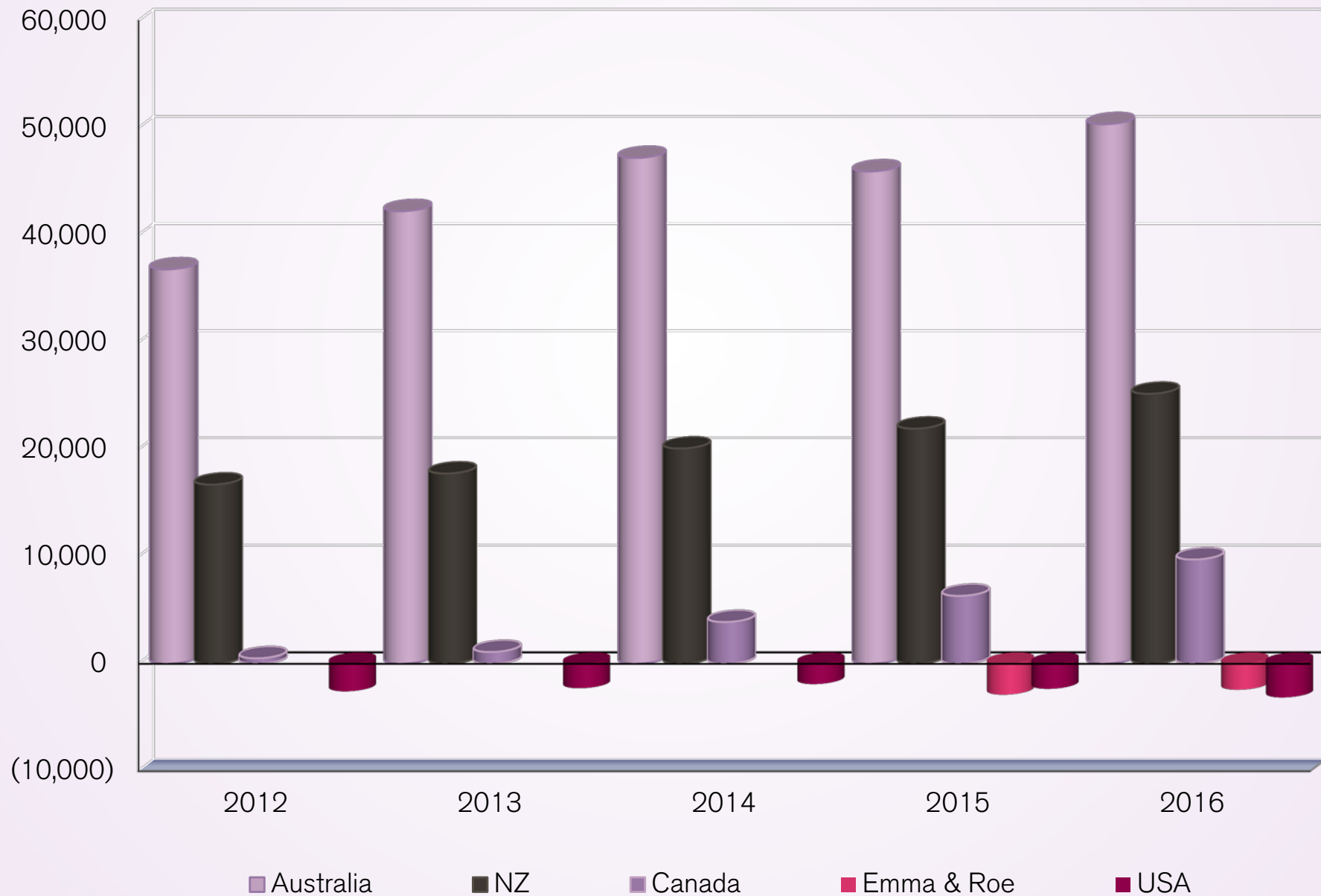
Store Numbers at 30 June

- 2000 – 106 +4
- 2001 – 115 +9
- 2002 – 120 +5
- 2003 – 134 +14
- 2004 – 143 +9
- 2005 – 156 +13
- 2006 – 177 +21
- 2007 – 192 +15
- 2008 – 210 +18
- 2009 – 239 +29
- 2010 – 232 - 7
- 2011 – 240 +8
- 2012 – 252 +12
- 2013 – 267 +15
- 2014 – 278 +11
- 2015 – 288 +10
- 2016 – 297 + 9

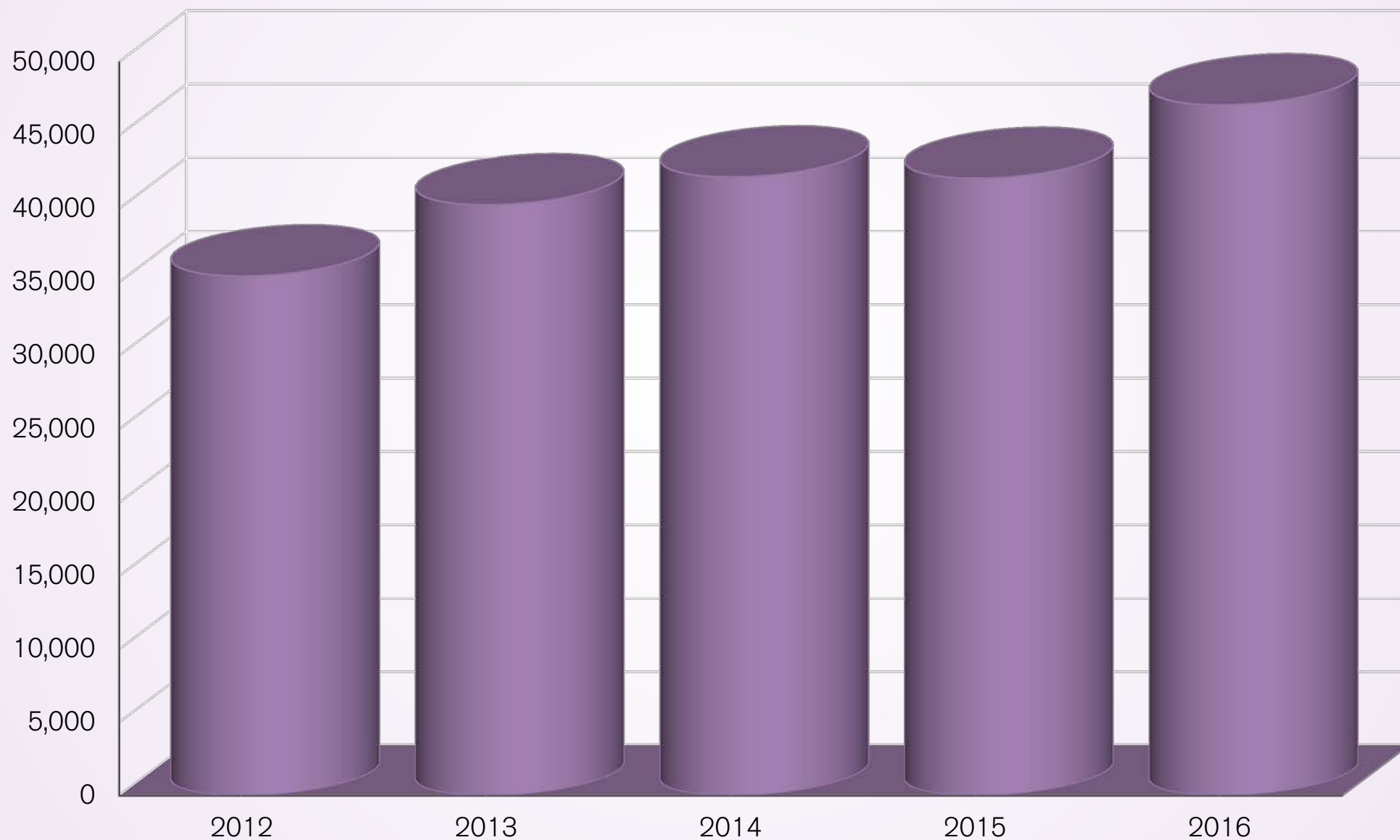
SALES BY BRAND/COUNTRY FY2016



EBIT CONTRIBUTIONS BY COUNTRY TO 30 JUNE (AU\$000's)



EARNINGS BEFORE INTEREST & TAX TO 30 JUNE (AU\$000's)



FIVE YEAR EARNINGS AND CASH FLOW GROWTH

- Consistent growth despite soft global environment
- Five year CAGR 2011 to 2016
 - Revenue 8.0% p.a.
 - EBITDA 8.6% p.a.
 - EBIT 6.2% p.a.
 - Net earnings before tax 6.4% p.a.
 - Net operating cash flow 7.4% p.a.

HOW WE OPERATE- WHAT MAKES US DIFFERENT

HOW WE OPERATE – WHAT MAKES US DIFFERENT

- The market we operate in and how we define it
- The Michael Hill professional selling system
- POS and Management Information systems
- In House Credit
- Professional Care Plans
- Inventory management
- Branded collections
- eCommerce

THE MARKET WE OPERATE IN

- Metrics used to select markets, store location within a city and within a mall
- Store layout and size carefully planned

THE MICHAEL HILL PROFESSIONAL SELLING SYSTEM

- Continuous staff training and management
- Rigorously applied for all staff
- Drives productivity and discipline

POS AND MANAGEMENT INFORMATION SYSTEMS

- POS allows daily and intra-day monitoring of sales
- Upgrading management information systems and linkage to POS

INVENTORY MANAGEMENT 2016

- Total inventory on hand was \$200.0m up from \$182.2m
- Stock turn across the Group is 1.06 for the 12 months up from 0.92. Stock turn is calculated on average monthly inventory holding.
- Gross margin ROI was 1.39 for the year

BRANDED COLLECTIONS 2016

- Objective of these Collections is to drive consumer preference and to demand a margin premium
- We estimate that the margin premium is in the region of 5%
- Global branded product sales reached 14.9% of total sales compared to 13.2% prior year
- Goal is to have 20% of global sales coming from branded collections

IN HOUSE CREDIT NORTH AMERICA 2016

- Loan book has grown to \$13.9m, up 12.6% on prior year
- Represents 25% of sales in Canada and 40% in the US
- Interest and other income grew 29.8% to \$1.4m
- Bad debts run at approximately 5% of credit sales made
- Presents a strategic advantage to increase our bridal sales market share within North America and offers an opportunity to own a comprehensive customer database which allows for direct targeted marketing
- Provides flexibility for the Group to align the lending risk with our sales margin and maximise the sales opportunities

PROFESSIONAL CARE PLANS (PCP) 2016

- Total PCP sales grew 10.6% to \$39.3m
- Revenue recognised of \$30.8m, up 22.0% caused by more stores selling the product, an accumulation of recognition of prior years revenue and another year incremented to the recognition pattern.
- Deferred revenue of \$71.6m held on balance sheet
- Provides a competitive advantage by establishing an ongoing relationship with customers

E-COMMERCE TRENDS

- e-commerce stores operating in each of our 4 markets
- There were 10.9m visits to our web sites over the 12 months up from 8.8m
- CRM capability is progressing well, with early deliverables successfully embedded. A new POS is being deployed in the company over the next 2 years which will deliver new CRM capabilities
- Continuing strong customer engagement via social media channels
- Ongoing collaboration across the channels to deliver frictionless customer experience
- Strong revenue growth in non-bridal product categories, including the Emma & Roe range



24%

Increase in
visits



42%

Increase in
mobile visits



47%

Increase in
revenue



52%

Increase in
transactions

GROWTH STRATEGY

GROWTH DRIVERS

Michael Hill

- **Australia** – grow/fine tune
 - ~ 3 new stores p.a.; improve store locations; lift margins and operating metrics
- **New Zealand** – fine tune
 - ~ 1 new store p.a.; ongoing refinement of business; maintain margins and operating metrics
- **Canada** – growth mode
 - 10 – 15 new stores p.a.; improve store locations; lift margins and operating metrics
- **United States** – trial mode
 - No new stores until FY18; lift same store sales and margin

Emma & Roe – moved to growth mode from trial at end of FY16

- Retail General Manager has been appointed
- Roll out of footprint begun in Australia and Zealand. No current plans for Canada and United States
- Build business infrastructure as part of store roll out

SEGMENT OVERVIEW – JUNE 2016

MATURITY	AU	NZ	CA	USA	E&R
SCALE	✓	✓	✓	×	×
BRAND STRENGTH	✓	✓	✓	×	×
SALES PER STORE	\$1.8M	\$2.4M	\$1.4M	\$1.4M	\$0.9M
GP%	62.7%	61.7%	62.1%	58.7%	69.9%
EBIT%	16.4%	22.4%	10.0%	(16.3%)	(26.0%)
POTENTIAL EBIT MARGIN	18%	23%	18%		
GROWTH DRIVERS	AU	NZ	CA	USA	E&R
STORE COUNT	168	52	67	10	17
TARGET STORE COUNT	175	53	110	18	300
STORE ROLL OUT P.A.	~ 3	~ 1	10-15	N.A.	10-15

QUARTERLY TRADING UPDATE – 3 MONTHS TO SEPTEMBER 2016

STORE PHOTOS



Takapuna, New Zealand - Refit December 2014



Robina, Queensland - Opened December 2014



Easton Town Center, Columbus - Opened July 2014



Loganholme, Queensland - Opened July 2015



Vulcan Lane, New Zealand
Opened August 2015



Yorkdale, Canada
Opened July 2015



Roosevelt Field, USA
Opened October 2015

Q & A



michael hill®

INTERNATIONAL LIMITED