

ASX AND NZX ANNOUNCEMENT  
POSITIVE SALES MOMENTUM CONTINUES IN  
CHALLENGING TRADING CONDITIONS  
Second Quarter Trading Update

15 January 2020

KEY POINTS

- **Sales momentum continued for the quarter** – all countries delivered positive same store sales for Q2, with the Group delivering +4.0% in same store sales and +3.3% on an all stores basis.
- **Positive trend in sales for the half** – Group first half same store sales were up 6.5%, with all store sales up 5.6%, against prior year.
- **Strong Black Friday weekend trade pulling forward sales, leading to a changing Christmas trading pattern** – Black Friday weekend saw a meaningful lift in overall November foot traffic and sales. The shifting consumer dynamic saw a softer first half to December, before closing the month (and quarter) with a strong last 10 days of trade.
- **Margin remains challenging in a tough retail environment** – gross margin remains below historical levels but in line with recent quarters, as we actively manage price and promotion to build market share and acquire customers. In a highly competitive jewellery environment, initiatives to improve margin are progressing well.
- **Ongoing working capital and cost management focus** – a continued focus on working capital management, including inventory levels, range optimisation and cost management to deliver improved operating efficiencies.
- **e-commerce initiatives gaining traction** – Michael Hill website sales were up by 44.3% for the half and +47.1% for the quarter, representing 3.3% of quarterly sales for the group, after adjusting for Emma & Roe product.
- **Growth in Branded collection sales** – Branded collection sales represent 35.4% of first half sales (up from 32.5% of total product sales for FY19).
- **Store portfolio management** – no stores were opened or closed in any of the markets for the quarter. Active landlord negotiations continue to deliver operating benefits across renewals, relocations and where necessary, closure of under-performing stores.

**Commenting on the result, Michael Hill International Limited, CEO Daniel Bracken said:**

“Overall, we are pleased with our result for this all important second quarter. The business had a solid October and a very strong November on the back of launching our Christmas campaign early to capitalise on the Black Friday weekend. While the shift in consumer behaviour saw a significant uplift in November sales in all markets, our sales in early December were somewhat disappointing.

“As we anticipated, the Christmas trading pattern changed significantly this year, with a pull forward of sales into November. Pressure on gross margin continued in all markets, with deep-discounting from many competitors. The Australian retail environment was particularly difficult given prevailing low consumer confidence, the competitive environment in our industry segment, together with foreign exchange and gold price headwinds.

“During the quarter, a number of initiatives were launched in a considered manner as our refreshed retail operating model continues to evolve. We are excited by the initial “online only” launch of our loyalty program, *Brilliance*, which has seen close to 50,000 customers sign up, many of whom are new to the brand.

“Our Laboratory Grown Diamonds trial has been deliberately and carefully deployed across all markets. Early stage success will now see further investment in this exciting new market space, with additional stores being added in the coming months.

“These results position us well for the balance of the year, as we focus on key initiatives and brand profile in each market. There is a real air of enthusiasm across the business with a focus on delivery of initiatives that continue into the second half.

“We would also like to take this opportunity to acknowledge the impact of the bushfires on the Australian community including many of our own people. In response to this disaster, Michael Hill has contributed \$100,000 to the Australian Red Cross’ Disaster Relief and Recovery fund, and are proud to be part of such a supportive community that comes together in times of need.”

## SEGMENT BREAKDOWN

- The Australian segment same store sales increased by 1.6% for the quarter, and all store sales down 0.9% reflecting a reduced store portfolio. Christmas trade was challenging in Australia, as competitors persisted with deep and enduring discounting. There were 165 stores trading at the end of the half (FY19H1: 173).
- The New Zealand segment same store sales increased by 5.0% for the quarter, and all store sales up 5.4%. The segment again delivered a positive result throughout the quarter, and remains our most productive market. There were 52 stores trading at the end of the half (FY19H1: 52).
- The Canadian segment same store sales increased by 1.4% for the quarter, and all store sales up 3.7%, following a strong Q2 performance last year. This segment continues to present further opportunity for growth, with investment in training, personnel and logistics. There were 87 stores trading at the end of the half (FY19H1: 85).

Revenue for retail operations from the sale of goods and services for **FY20Q2**:

**The following figures are in Australian dollars**

		<b>Last Year*</b>	<b>This Year*</b>	<b>% Var</b>
Total same stores	AUD	190,528,971	198,055,666	4.0%
Total all stores	AUD	197,052,201	203,474,849	3.3%

**Same store figures in local currency**

Australia same stores	AUD	101,844,420	103,504,039	1.6%
New Zealand same stores	NZD	40,799,970	42,842,867	5.0%
Canada same stores	CAD	48,063,769	48,717,675	1.4%

**All stores figures in local currency**

Australia all stores	AUD	106,901,967	105,936,114	-0.9%
New Zealand all stores	NZD	41,641,745	43,910,131	5.4%
Canada all stores	CAD	48,708,604	50,501,273	3.7%

**Exchange rates used for FY20Q2:**

New Zealand	1.06	1.06
Canada	0.95	0.90

Revenue for retail operations from the sale of goods and services for **FY20H1**:

<b>The following figures are in Australian dollars</b>		<b>Last Year*</b>	<b>This Year*</b>	<b>% Var</b>
Total same stores	AUD	298,937,458	318,341,830	6.5%
Total all stores	AUD	310,099,580	327,347,592	5.6%
<b>Same store figures in local currency</b>				
Australia same stores	AUD	164,566,080	170,199,686	3.4%
New Zealand same stores	NZD	63,932,143	68,245,603	6.7%
Canada same stores	CAD	71,508,227	75,386,702	5.4%
<b>All stores figures in local currency</b>				
Australia all stores	AUD	173,643,671	174,340,089	0.4%
New Zealand all stores	NZD	65,076,518	70,050,371	7.6%
Canada all stores	CAD	72,483,549	78,235,266	7.9%

**Exchange rates used for FY20H1:**

New Zealand	1.07	1.06
Canada	0.96	0.90

The above figures for Michael Hill represent five months accounting adjusted sales results plus December preliminary sales figures prior to final accounting adjustments, and are unaudited. Revenue figures stated above include the Professional Care Plan (PCP) revenue recognised during the period and sales through our store and online channels. The PCP income recognition pattern is based on existing estimates and is subject to ongoing management review and adjusted at half-year/year-end as required. Total Group all stores includes sales from our Michael Hill locations in Australia, New Zealand and Canada and sales from our Emma & Roe location.

\* Commencing FY20, MHJ has adopted a retail reporting calendar. Accordingly, the figures above reflect comparable quarterly 13-week trading periods and trading days.

ENDS

**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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## 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:

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