

ASX AND NZX ANNOUNCEMENT FY2019 FULL YEAR RESULTS TRANSITIONAL YEAR ENDS WITH POSITIVE MOMENTUM

15 August 2019

Michael Hill International Limited (ASX and NZX: MHJ) has announced its financial results for the full year to 30 June 2019.

Key Financial Results

- **Statutory net profit after tax increased** to \$16.5m (FY18: \$1.6m*).
- Statutory earnings before interest and tax increased to \$21.1m (FY18: \$8.9m*).
- Group operating revenues \$569.5m (FY18: \$575.5m).
- Underlying earnings before interest and tax \$34.6m (FY18: \$40.1m).
- Group same store sales \$524.7m (FY18: \$542.8m), down 3.3%.
- Gross margin 62.0% (FY18: 63.7%).
- Controlled working capital management with inventory reduced by \$6.6m (before one-off impairments).
- Net debt reduction of 11.4% to \$24.8m (FY18: \$28.0m).
- Equity ratio 46.8% (FY18: 45.9%*).
- Final dividend of AU 1.5 cents per share, giving a full year dividend of AU 4.0 cents per share (FY18: AU 5.0 cents per share).

Operational Performance

- Same store sales momentum recovery continued throughout the year, finishing with FY19Q4 at +0.7%.
- e-commerce sales increased by 43.6% to \$16.0m (FY18: \$11.1m).
- Branded collection sales represented 32.5% of total sales.
- Delivery of a \$5m cost out to annualise in FY20.
- A further \$5m savings identified that will fully annualise in FY21.
- Continued investment in technology as the Company migrates to a highly integrated IT environment.
- Ten Michael Hill stores opened and eleven under-performing stores were closed (along with five Emma & Roe stores) during the year, giving a total of 306 stores trading at year end.

Commenting on the announcement of the Company's full year results, CEO Daniel Bracken, said:

"2019 was a transitional year for the Company. Whilst we are disappointed with the financial result, we have finished the year with positive sales momentum and reduced inventory. Together with the Board, I have added strength to the management team and we are all aligned on the strategy and focused on building scalable foundations for future growth. The pace of change has been intense this year with a greater sense of urgency and determination to deliver, which is really infectious. There is a strong belief in the strategy and each other – and a healthy impatience among us to see results."

"I'm proud that we have been able to improve sales momentum despite challenging trading conditions in our key markets. Following our Q4 sales results, I'm confident that in the coming year we are well positioned to deliver improved performance as our new operating model gathers pace, new product is introduced and our investments in our digital and IT infrastructure start to bear fruit. The focus will continue to be on retail fundamentals and strong execution in store and online."

"Since joining the Company in November 2018, we have moved to reduce head office costs and stabilise the sales performance of the business. Whilst this has come at some short term compression of gross margin, we will be working hard in the coming year to improve profitability as new branded collections are progressively introduced."

FY19 – Group Business Performance

The Group reported a net profit after tax (NPAT) of \$16.5m for the full year ending 30 June 2019. Underlying earnings before interest and tax (EBIT) for the period was \$34.6m (FY18: \$40.1m). The decline in EBIT was partially offset by our cost out program, announced in February 2019. In addition to compressed margins arising from the current competitive retail environment and clearing of aged off range inventory, the results for FY19 were impacted by employee remediation costs of \$4.5m, one-off aged inventory impairment of \$6.0m and employee restructuring costs of \$2.0m as part of the cost out program.

Same store sales were down 3.3% for the full year to \$524.7m (FY18: \$542.8m), due to the Company's shift away from aggressive discounting for the first four months of the year and a competitive retail environment. Same store sales returned to positive growth in FY19Q4 with an increase of 0.7%.

The continued investment and development of the Company's e-commerce business resulted in record on-line revenue of \$16.0m for the full year (up 43.6% on FY18) and now represents 2.8% of total sales. The launch of a number of new branded bridal collections and a concerted marketing focus led to branded collections representing 32.5% of total product sales for the full year.

The active inventory management program along with one-off aged inventory impairment of \$6.0m has seen inventory levels reduced to \$179.5m at year end (FY18: \$192.1m). This focus on working capital, along with the cost out program and renegotiated vendor payment terms, has contributed to the reduction in net debt to \$24.8m from \$28.0m in FY18.

The company opened ten new stores and closed eleven under-performing stores, along with five Emma & Roe stores, resulting in 306 stores at year end (including one remaining Emma & Roe store).

Final dividend of AU 1.5 cents per share, giving a full year dividend of AU 4.0 cents per share (FY18: AU 5.0 cents per share) and represents a yield of approximately 8% based on current share price.

Australian Retail Performance**

Australian retail segment revenue declined by 3.7% to \$313.6m (FY18: \$325.7m) with gross margin of 61.9% (FY18: 63.3%) during the year. Gross margins were compressed as the Company cleared aged off range inventory, and moved decisively to defend market share in challenging retail conditions.

In FY20, we expect the Australian retail environment will continue to be challenging, but we are focused on building momentum off the back of the last quarter of FY19. We expect performance to be driven by improved retail in-store execution and product newness, strong property portfolio management and continued online revenue growth.

New Zealand Retail Performance**

In New Zealand, retail segment revenue declined by 4.1% to \$120.1m (FY18: \$125.2m) and with gross margin of 60.8% (FY18: 62.0%). In FY20, we expect that the New Zealand business will benefit from operational improvements, continued refinement of the property portfolio and improved cost efficiencies.

Canada Retail Performance**

In Canada, the business saw retail segment revenue growth of 1.8% to \$133.1m (FY18: \$130.8m), with a decline in gross margin to 60.6% (FY18: 62.4%). A series of measures to improve productivity and sales were introduced in FY19H2 that are expected to drive performance improvement for FY20.

***Amounts in local currency, FY18 figures reflect only continuing operations (excluding Emma & Roe) and FY19 include all operations*

Key Initiatives for FY20

With a strengthened leadership team in place, the focus will be on the retail fundamentals of the business and building on the framework of the five strategic priorities announced with the FY18 results:

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

These strategic priorities are going to be key drivers to the success of our business. In addition to delivering these strategies, the Company will focus on a number of key initiatives throughout FY20:

1. **Continued focus on costs** – the cost out program delivered in FY19 will see annualised full-year benefits in FY20 of \$5m. Management has identified a further \$5m cost reduction program that will be delivered across FY20 and FY21.
2. **Retail Operating Model** – the implementation of a more sophisticated and integrated customer-focused retail operating model is well underway. This model will drive regular product newness to our stores, a structured and consistent marketing platform, and exciting changes within stores for our customers. We anticipate that this initiative will drive improved customer transaction frequency and conversion rates.
3. **Retail Fundamentals** – a deliberate emphasis on the Company’s core disciplines presents a significant opportunity. A much greater focus is being applied to retail execution and visual merchandising, enhancing our brand, inventory management and cost control.
4. **Acceleration of the Branded Collections strategy** – as demonstrated in the second half of FY19, we have a clear pathway to drive exclusive Branded Collection sales to 50% over the coming years. This represents both a sales growth and margin opportunity with existing customers, and an avenue to attract new customers to the Michael Hill brand.
5. **New Merchandise Rhythm** – implementing new processes and a critical path to ensure that product newness is brought to market on a regular basis. A focus on margin mix and margin outcomes via deliberate product selection will be delivered by way of multiple strategies.
6. **Canadian Productivity** – Canada presents a significant opportunity from a productivity perspective. A plan to drive increased sales per square metre has been developed, and we will be implementing initiatives to deliver improved results over the course of FY20.
7. **Online as a core focus** – to improve our existing online customer experience and expanding our digital platform, while building capability for the future.

Outlook for FY20

Michael Hill International CEO Daniel Bracken said:

“The business was facing significant challenges when I joined in November, but we pulled together and reversed the momentum. Whilst we expect market conditions to remain challenging, our focus will be on strengthening our customer proposition with new branded product and improved disciplines in buying, selling and marketing. Our focus on cost reduction and improved productivity will also continue as we look to build on early signs of positive momentum in the last quarter.”

Important Note

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

ENDS

Analyst and investor call

An analyst briefing on the results will be held today at 10.15am (Brisbane, Qld time). Webcast and dial in details may be found in the Company's announcement dated 6 August 2019.

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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 306 stores globally, with 305 Michael Hill stores in Australia, New Zealand and Canada, and 1 Emma & Roe store in Australia. 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:

www.investor.michaelhill.com

www.michaelhill.com.au

www.emmaandroe.com.au

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.