

ASX AND NZX ANNOUNCEMENT

MICHAEL HILL BUILDS SALES MOMENTUM IN TOUGH TRADING CONDITIONS

TRADING UPDATE TO 30 JUNE 2019

10 July 2019

KEY POINTS

- **Continued sales performance momentum in Q4** – Against prior year, same store sales were flat at +0.1% and total sales were down by 0.8% for FY19Q4. This final quarter same store sales result of +0.1% demonstrates sales momentum recovery when compared favourably against prior quarters (Q1 -11.0%; Q2 -2.9%; Q3 -1.5%).
- **Cumulative same store sales continue to recover** – Fourth quarter performance demonstrates that the contraction in FY19 sales has stabilised. Cumulative same store sales continued to recover throughout the year as follows:
 - First quarter to 30 September 2018 -11.0%
 - Half year to 31 December 2018 -6.0%
 - Nine months to 31 March 2019 -4.8%
 - Full year to 30 June 2019 -3.5%.
- **Active inventory management program** – A deliberate focus to reduce inventory against prior year closing levels, has seen improved working capital and a cleansing of aged / off-range stock with some impact on gross margin. This has enabled the introduction of “newness” in the retail operating model on a monthly basis.
- **Margin compression continues** – Gross margin has experienced some compression due to the competitive retail environment and related clearance activity, ongoing FX headwinds impacting cost of goods, and sector consolidation, which saw a full year gross margin of 61.1%, compared against 62.8% for the prior year.
- **e-commerce sales continue to grow** – A full year e-commerce sales result of \$16.0m (included in the segment numbers below) for the year to 30 June 2019 (up 43.6% on FY18) now represents 2.8% of total sales (FY18: 1.9%).
- **Branded collection sales increased** – Branded collections represented 32.5% of total product sales for FY19, reflecting the launch of a number of new branded bridal collections in the second half of FY19.
- **Decisive store portfolio management** – Ten new stores were 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 30 June 2019 (including the one remaining Emma & Roe store).

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

“Even though we are experiencing an extremely competitive retail environment, particularly in Australia, with intensive competitor clearance related activities and lower foot traffic, the company has continued to deliver improved sales momentum for the fourth quarter. To deliver our Q4 sales result, and remain competitive, we did experience margin compression in the quarter. While we have seen some of our competitors responding with deep discounting and store closures, Michael Hill is now well positioned as we head into FY20.

“We have actively managed our overall inventory holdings below prior year levels. This deliberate choice to focus on aged inventory has positioned us well for the introduction of our new integrated customer-led retail operating model, under-pinned by regular product “newness” in our stores.

“Furthermore, our e-commerce business has continued to grow at a significant rate, with annual sales now more than double that of our largest physical store. Over the course of FY20, we will continue to invest in this important future growth channel for the group. In addition, our increased focus on our uniquely differentiated product has lifted the branded collections sales mix to new heights, with the introduction of a number of new exclusive bridal collections.

“As our strategic initiatives and customer-led retail operating model continue to unfold, and with a full-strength leadership team now in place, I am excited by the year ahead, and our ability to grow market share.”

Michael Hill International Limited (ASX/NZX: MHJ) intends to release its full year results to 30 June 2019 prior to market opening on Friday 16 August 2019, at which time a further update will also be provided on the progress of the strategic initiatives and the customer-led retail operating model.

SEGMENT BREAKDOWN

- The Australian segment finished the year with total same store sales of -5.9%, a recovery from FY19H1 of -8.8%. Four stores opened during the year, and eight underperforming stores were closed, giving a total of 168 stores trading at 30 June 2019.
- The New Zealand segment saw total same store sales of -4.7% for the year, a recovery from FY19H1 of -6.4%. Two stores closed and two stores opened during the year, giving a total of 52 stores trading at 30 June 2019.
- Canadian stores delivered total same store sales of -1.6% for the year, a recovery from FY19H1 of -2.7%. Sales across all stores lifted by +1.5% for the year. One store closed and four stores opened during the year, giving a total of 86 stores trading at 30 June 2019.

Revenue for continuing operations from the sale of goods and services for **FY19Q4**:

The following figures are in Australian dollars		Last Year	This Year	% Var
Total same stores	AUD	123,067,388	123,204,994	0.1%
Total all stores	AUD	133,652,588	132,624,208	(0.8%)
Same store figures in local currency				
Australia same stores	AUD	69,189,408	67,560,468	(2.4%)
New Zealand same stores	NZD	27,386,929	27,308,399	(0.3%)
Canada same stores	CAD	27,844,845	27,826,389	(0.1%)
All stores figures in local currency				
Australia all stores	AUD	76,402,877	71,980,086	(5.8%)
New Zealand all stores	NZD	28,399,189	28,610,393	0.7%
Canada all stores	CAD	30,299,510	31,345,734	3.7%
Exchange rates used for FY19Q4:				
New Zealand		1.07	1.05	
Canada		0.98	0.93	

Revenue for continuing operations from the sale of goods and services for **Full Year FY19**:

The following figures are in Australian dollars		Last Year	This Year	% Var
Total same stores	AUD	542,788,814	523,977,197	(3.5%)
Total all stores	AUD	588,755,496	563,403,077	(4.5%)
Same store figures in local currency				
Australia same stores	AUD	310,277,967	292,075,514	(5.9%)
New Zealand same stores	NZD	120,925,625	115,214,647	(4.7%)
Canada same stores	CAD	119,072,447	117,131,790	(1.6%)
All stores figures in local currency				
Australia all stores	AUD	342,640,935	313,110,401	(8.6%)
New Zealand all stores	NZD	125,238,489	119,824,610	(4.3%)
Canada all stores	CAD	128,534,624	130,447,998	1.5%
Exchange rates used for Full Year FY19:				
New Zealand		1.09	1.06	
Canada		0.98	0.95	

The above figures for Michael Hill represent eleven months accounting adjusted sales results plus June preliminary sales figures prior to final accounting adjustments, and are unaudited. Revenue and gross margin figures stated above include the Professional Care Plan (PCP) revenue and expenses 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 locations.

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.

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 306 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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