

MICHAEL HILL INTERNATIONAL LIMITED 2020 ANNUAL GENERAL MEETING

CHAIR'S ADDRESS

Today I'd like to give you an overview of how we view the year that's closed. Following that Daniel and Andrew will give more detail on our 2020 results, our current and future focus and a trading update for the recent quarter.

2020 was extraordinary. We started the year strongly, delivering key initiatives in our transformation journey while posting solid sales growth. As Christmas approached tragic bush fires affected our Australian communities along with a prolonged drought and floods. The COVID-19 pandemic then ignited a health and economic crisis that's profoundly impacted the way we all live, work and shop. It would be hard to imagine a more challenging and diverse set of circumstances.

Our financial results, which Daniel and Andrew will talk to in detail, have been severely impacted by the pandemic. To keep our people and customers safe, we closed our stores across all markets for between 5 to 13 weeks. This was unprecedented.

While the effect of the pandemic on how we do business is material, we have responded decisively and adapted quickly. A range of digitally focussed initiatives were accelerated, such as virtual selling, and remote working, enabling Michael Hill to keep connected with customers and team members, and respond to their changing needs. We reopened our retail network, when it was safe and possible to do so, and have implemented best in class health protocols like screened customer entry with temperature checks in COVID-19 hot spots, such as we are currently experiencing in Canada. The business continues to be impacted by the pandemic, some impacts are out of our control, like the mandated reclosures of stores across Melbourne and Auckland. Daniel and Andrew will go into more detail around how COVID-19 is affecting the business.

Throughout the year, what has shone through, is our people, who I want to thank. We have asked a lot from them and they've responded brilliantly. Seeing them operate, often remotely, across all levels of the organisation, calmly dealing with rapidly unfolding events made me incredibly proud. The Michael Hill team has acted with determination, resilience and agility, while showing they cared. Our culture has never been stronger.

I would also like to acknowledge our suppliers, landlords and other partners who supported and collaborated with us. These are critical relationships for Michael Hill. Assistance from our partners continues to help us successfully navigate the pandemic.

And as mentioned last year, given culture has always been important to us, we were very disappointed to discover the misapplication in Australia of the General Retail Industry Award. The company has largely remediated existing team member payments. However, during the COVID-19 closure period, the remediation program for former team members was paused, noting that interest will be paid on all amounts owing until this program of work is completed.

Talking to strategy. The pandemic has dramatically changed customer behaviour, and accelerated the digital transformation of the retail industry. This has reinforced the board's confidence in our strategic plan. COVID-19 has demonstrated the importance of continuing to enhance our omni channel capabilities so customers can shop in whatever way best suits them. We will take market share by delivering the best possible customer experience across all channels. We sustained focus on executing our strategy throughout the year, delivering significant evolution of the group. We will emerge from the crisis a stronger, leaner, more relevant business.

Moving on to Board matters. I'd like to thank the directors for their wise counsel, judgement and commitment over the year which saw us meeting on a high frequency basis as the pandemic took hold. Individually and collectively the directors played an integral role in successfully navigating a sometimes rapidly changing environment.

We are delighted to endorse Jacquie Naylor's proposed election as a director today. Jacquie has rich experience in retail, fashion, and omnichannel. Jacquie's demonstrated to us her retail and strategic insights are a valuable and complimentary addition to the Board.

As shareholders, you will be interested in Michael Hill's position on dividends. Given the uncertain economic environment, and our desire to maintain a resilient balance sheet to withstand stress, the Board decided to not declare an end of FY20 dividend, as well as defer payment of the FY20 interim dividend. Our goal is to restore a regular pattern of dividend payments as quickly as financial performance allows.

In closing, and on behalf of the Board, I would like to thank all members of the Michael Hill team, as well as our customers, partners and shareholders for their contributions and ongoing support.

I now invite CEO, Daniel Bracken to address the meeting and discuss the 2020 operational performance, as well as current and future focus.

CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you, Emma. Good morning and thank you for joining us today. Together with Andrew we will review the 2020 financial results and strategic and operational achievements. We will also provide you with some insights into key strategic initiatives for the year ahead, and an update on our first quarter trading.

As I reflect on the 2020 financial year, it was certainly a year of two halves. Following on from the positive sales momentum achieved across FY19, the business delivered consecutive quarters of sales growth in all markets to finish the first half with +6.3% comparative sales. As we entered the second half, we started to see the benefits from our disciplined "rhythm of the business" approach coupled with our strategies gaining traction, as the business shifted its focus to a balance of both sales and margin.

The business continued to leverage the brand's deep heritage as we celebrated our 40th birthday in August. The roll-out of various digital capabilities accelerated our journey of evolving into a modern, differentiated, omni-channel jewellery brand.

Prior to the COVID-19 store closures at the end of March, the business was successfully delivering both sales and margin growth, and was tracking to achieve increased year-on-year EBIT.

Undoubtedly, the 2020 financial year will always be remembered for the COVID-19 global pandemic. The impact of COVID-19 was beyond anything we have ever experienced. The global economic and health consequences are having a profound and far reaching impact. As the pandemic advanced, and as selling jewellery is an intimate close quarter process, we had no choice but to temporarily close all our stores to keep our people and customers safe. The closures lasted between five and thirteen weeks, depending on region and country. Similar to many speciality retailers our business was severely impacted, resulting in an estimated revenue loss of at least \$80m for FY20Q4.

I am particularly proud of all our people. Never before have we asked so much from them. Despite incredible uncertainty, for themselves and their families, they have, and continue to, respond with resilience, determination and professionalism.

Throughout the year, the company maintained a laser sharp focus on delivering new initiatives to modernise Michael Hill. We successfully embedded the new retail operating model, launched our new loyalty program, trialled laboratory-created diamonds, along with a raft of digital developments as we continued to improve the strategic foundations of the business.

Our continued focus on costs resonated across the business as the reality of COVID-19 store closures impacted the entire business. As a direct consequence, we implemented a number of measures to preserve cash, negotiated deferred vendor payment terms, tax payment deferrals and rental abatements. The business cancelled all discretionary spend, paused most of our planned capital expenditure and operated with a much leaner global support office.

A number of initiatives had already been delivered prior to COVID-19, such as a reinvigorated retail structure, consolidation of our repair network in all countries, and improved terms with some of our credit providers.

Pleasingly, our long-awaited loyalty program was soft-launched digitally in October last year, and already has more than 260,000 members. This gives us the ability to capture customer data for future engagement. And as a result of the successful member pricing aspect of the program, we are experiencing higher transaction values and improved gross margins.

As our customers turned to online shopping channels due to COVID-19 store closures, we launched several digital initiatives capitalising on the increased website traffic. These involved an enhanced website with improved customer experience; checkout process and navigation functions; direct selling through social media and digital catalogues; and a number of virtual applications into our ecosystem, including a virtual selling platform, virtual appointments and virtual try ons.

As a result the Company experienced a surge in sales from our digital business, resulting in record digital sales of \$24.7m which represented a milestone 5% of total sales, up from 2.8% of total sales in FY19.

We have made great progress in how we are organised and how we operate our retail business.

During the year, we trialled our new store incentive scheme. Those trials demonstrated increased performance across many aspects of our business, most notably higher margins. I'm pleased to say that the new scheme has now been rolled across all stores in the network, and is delivering strong results.

We also launched our "Sparkle" customer satisfaction program during the year, and this is starting to provide great feedback and insights to our teams.

The new Retail Operating Model is firmly embedded in the business, and we have significantly ramped up our focus on in-store execution and visual merchandising standards.

As we complete what can only be described as an extraordinary year, we have emerged as a stronger, leaner and more professional business. I'm incredibly proud of the strategic progress we made during 2020 across costs, loyalty, digital, retail fundamentals and company culture, which I believe have Michael Hill well positioned to navigate both the opportunities, and the potential market disruptions ahead.

Prior to speaking about FY21, I will pass over to Andrew to review our FY20 financial results, after which I will walk you through our key focus areas for FY21 as well as provide a first quarter update.

CHIEF FINANCIAL OFFICER'S ADDRESS

Thank you, Daniel. As Daniel has described, this was a year of two halves, as we saw positive same store sales growth momentum continue for half one, and also through to the end of February 2020.

This followed an underlying EBIT for FY20H1 of \$31.6m, as we started to see the benefits of our initiatives gaining traction, along with a continued focus on costs and retail disciplines.

Headline sales and profits were directly impacted by the COVID-19 pandemic, which resulted in all stores across all three markets closing for varying periods from late March.

As a result of the temporary store closures, the Company reported revenue of \$492.1m compared to \$569.4m in FY19, and an underlying trading EBIT of \$25.7m compared to \$34.6m in FY19.

Even with the loss of Quarter 4 trading days, active inventory management saw inventory levels finish the year in line with prior year end.

Disciplined cash management also saw a net cash position at year end, though with additional rental accruals owing of circa \$13m.

Other aspects to call out for FY20 performance include:

- On an adjusted same store sales basis, the group achieved positive 2.7% growth in sales
- Australian adjusted same store sales were flat for the year, with New Zealand and Canadian adjusted same store sales both up over 2%

- We delivered record digital sales for the year of \$24.7m, up 54.7% against prior year, and representing a milestone 5% of total sales
- Our focus on reimagining branded collections saw them represent a record 37.3% of total sales
- Group gross margin declined for the year from 62% to 60.6%, predominantly impacted by FX.

Turning now to the impact of COVID-19 on store trading days in each market. From late March 2020, the COVID-19 pandemic saw stores closed in Australia for a period of five to ten weeks, in New Zealand for eight to nine weeks and in Canada for periods of ten to thirteen weeks – meaning some Canadian stores were effectively closed for a quarter of the year.

In accordance with government regulations and with robust safety protocols embedded:

- Australian stores reopened progressively from mid-May
- New Zealand stores opened in two tranches later in May and
- Canadian stores opened progressively from the Western to Eastern provinces commencing in June, through to the final stores opening in early July.

In aggregate, the global store closures saw an estimated 80 million dollars of lost revenue for the financial year.

Turning now to Group results. Group Revenue decreased by 13.6% to \$492.1m, largely due to the COVID-19 store closures.

As part of our decisive store portfolio management, one Michael Hill store was opened and seventeen under-performing stores were closed leaving 290 stores in the global network at year end.

I will now hand back to Daniel to outline the key strategic initiatives for FY21 as well as an update on the first quarter performance.

CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you, Andrew for your commentary on the FY20 financial results, and in particular your insights on the impact COVID-19 had on our store network.

As mentioned earlier, I'm going to take you through some of the main strategic initiatives for this year, which will be the key drivers of growth in sales and margin for the business.

Starting with Omni-Channel.

We will be leveraging the deployment of our cloud-based ERP platform and we now have the opportunity to embark on multiple digital and physical initiatives to meet the demands of a modern-day customer.

- We will roll-out "click and collect"; "click and reserve" and "ship from store" capabilities
- Bespoke customisable product will be enabled through our digital platforms
- We will develop "drop ship" capabilities, linking key vendors directly to our customers
- AND we are already underway with testing new marketplace opportunities.

Moving on to Digital. Building on the successes of FY20, further enhancements to our websites will be delivered to improve customer engagement, conversion and transactions

- We will embark of the next phase of the Brilliance loyalty program
- Our Marketing investments will continue to pivot towards more efficient digital channels
- AND I'm excited to reveal that during the first quarter we launched a new business
 - » A new pure play digital brand called MEDLEY, an aspirational and attainable on-trend jewellery offer
 - » You can do your own research (and shopping if you would like) at [medleyjewellery.com.au](https://www.medleyjewellery.com.au)
 - » Medley offers us a real opportunity to expand into the high margin demi-fine category, attracting a new customer demographic in an agile and capital light manner.

And next, Retail Fundamentals. We will further leverage our loyalty program to drive segmentation and personalisation with a focus on growing repeat purchasing customers and lifting margins.

- The new Retail Incentive Scheme will continue to be a key driver for increasing profitable sales and reinvigorating retail store culture, with further enhancements planned for the scheme
- Additionally, an increased focus on space planning to optimise store productivity and efficiencies

And onto the opportunities in our Canadian business

With a new leadership structure now in place and focused on delivering retail fundamentals, we are confident that the team can continue to increase productivity levels as demonstrated in H1.

- The management of our in-house Credit Program has been identified as an opportunity to increase margins and sales, through new partnerships
- While the evolution of our Canadian Supply Chain was previously identified as a sizeable commercial opportunity, this was placed on hold due to the pandemic. Re-engagement around this initiative is now well underway
- And additionally, we are exploring new capital light growth channels in the Canadian market.

And now to touch on product. We have implemented a new structure, a new operating model and calendar, AND new leadership are now in place within the Merchandise function, and this will deliver positive impacts across FY21.

- Range and assortment optimisation continue to present huge opportunities across stock-turns, purchasing, and margins, and with the new ERP platform now in place we will begin to deliver positive commercial outcomes
- Our Branded Collection strategy continues to gain share at higher margins, and the broader roll-out of Lab Created Diamonds will deliver increased margin and conversion.

And finally, an absolute focus on cost disciplines and capital management are forming part of the Michael Hill culture.

- Optimising our inventory, improving stock turns and leveraging our vendor relationships are a priority
- As highlighted by Andrew earlier, our store network will continue to be a major focus for management
- With an increased focus on store data capabilities and the implementation of dynamic rostering, we believe that a sizable prize exists within our largest operating expense
- While Michael Hill navigates the impacts of the global pandemic, and the ongoing potential of store closures, as recently mandated in Victoria and Auckland, the business has started FY21 positively.
- Pleasingly, gross margin improvement has continued as our investments in strategic initiatives gather momentum.
- Additionally, the Company has identified a number of growth and margin opportunities to strengthen our business, across product, digital and a true omni-channel offering.
- I am also incredibly excited about the launch of our new pure play digital brand – Medley.

Turning now to the FY21Q1 trading update.

We recently announced our first quarter trading update for FY21, with group same store sales up 7.3% against the first quarter of FY20, maintaining a focus on growth strategies to support both sales and margin.

Gross profit outpaced sales growth, with margin growth in all markets and channels of 100 to 200 basis points.

We are pleased with these results, and cautiously optimistic in these uncertain times, that these results give us a strong foundation as we enter the all-important Christmas trading period.

For the quarter, online sales were up 129% against FY20Q1, with digital initiatives delivering increased sales and margin across all markets and providing a favourable impact on group margin mix. For the quarter, digital channels represented 5.3% of total sales.

Branded collections represented 43.3% of total product sales for the quarter compared with 37.3% in FY20, reinforcing our strategy to emphasise unique Michael Hill product with improved product margins.

Membership in our Brilliance by Michael Hill loyalty program now exceeds 260,000. Membership was approximately 145,000 at the end of FY20.

Our diligent management of capital expenditure, working capital, inventory levels and a sustained, deliberate focus on cost of doing business helped to maintain a healthy net cash position at quarter end.

I am particularly pleased with our first quarter results from both a sales and margin perspective.

Over the past 18 months, the business has focussed on top line sales growth and recovery of market share as we restored sales momentum. As previously reported, our emphasis has since shifted to balance both sales and margin growth, underpinned by our strategic initiatives. It is encouraging to see these strategies flowing through to our results, particularly in relation to margin growth.

After what can only be described as a historic and challenging year, I would like to personally thank our loyal customers, our dedicated team members, the Executive team and Board members for their resilience and unwavering support.

And importantly thank you to you, our shareholders, for your continued support of Michael Hill.