

ASX AND NZX ANNOUNCEMENT

RESILIENT BUSINESS WITH STRONG FUNDAMENTALS, WELL POSITIONED FOR RETURN TO TRADE

Third Quarter Trading Update

16 April 2020

KEY TRADING POINTS FOR JANUARY AND FEBRUARY 2020 (FIRST NINE WEEKS OF FY20Q3)

- **Strong start to the quarter** – Positive sales growth maintained throughout January and February, as the Group delivered same store sales growth of +3.1% for the first nine weeks of FY20Q3, against prior year.
- **Positive sales momentum through to February** – As at the end of February, year to date same store sales for the Group were +5.7%, against prior year.
- **Margin recovery gained traction** – Gross margin percentage improved compared to prior year, with gross margin dollars lifting +2.2% for the first nine weeks of FY20Q3, against prior year.
- **e-commerce sales increasing in Australia and Canada** – Michael Hill website sales were up by 49.1% for the quarter, representing 3.6% of quarterly sales for the Group, after adjusting for Emma & Roe product.
- **Store portfolio management** – Prior to the temporary COVID-19 store closures, three under-performing stores were closed (Australia), giving a total of 301 stores trading at 29 March 2020 (including one remaining Emma & Roe store).
- **Temporary COVID-19 closure of all stores in all markets** – Store trading was temporarily suspended in March in all markets in response to the impact of COVID-19 on trading conditions.

In addition to its usual third quarter trading update, Michael Hill International Limited (ASX/NZX: MHJ) today also announces the range of initiatives it has undertaken to protect its balance sheet, and leave it well placed to continue to trade both online and in store when bricks and mortar trading re-commences in Australia, New Zealand and Canada.

1. Balance sheet and liquidity

The Company believes that it will have access to sufficient liquidity and reserves to trade through the crisis and beyond. The Company's net debt as at 29 March 2020 is approximately half the available facility limit of \$70m, which typically increases to \$110m in September to support Christmas inventory purchasing. The facility matures on 30 September 2021. The Company has a long relationship with ANZ and values their continued support of the business as it navigates the crisis.

As previously announced, the Board has decided to defer payment of our interim dividend for a period of six months – this decision will be reviewed again by 30 September 2020.

The Company has made good progress with remediating team member payments. On 10 July 2019, the Company announced a remediation program of \$10m - \$25m to address an historic misapplication of the General Retail Industry Award for a number of the Company's store-based workforce in Australia. The Company has largely completed remediation payments owing to existing team members. The remediation program for former team members will be paused, noting that interest will be paid on all amounts owing.

The Company has sufficient inventory levels to meet forecast demand and has taken prompt action to manage working capital and payments to suppliers. The Company is actively managing inventory during our temporary store closure period, and selected product has been recalled to our distribution centre, in order to assist with e-Commerce fulfilment and to return stock to vendors. Our strong product and supply chain relationships have been maintained throughout this period to ensure we are well placed for when we reopen our stores.

2. Lean operating model for the crisis period

The Company has also taken the following measures to ensure a lean operating model during the crisis period:

- Fees for all Board members have been reduced by 50% for the remainder of the financial year. Board fees will be reassessed again at 30 June.

- Executive cash bonuses (STI) have been cut to zero for the second half of the financial year and all executives have agreed to a 20% cut in remuneration for the remainder of the financial year, to be reviewed again at 30 June.
- Retail team members in all three markets and over 100 support centre team members have been stood down with access to leave entitlements while government support schemes in each jurisdiction are being implemented. The support centre structure is being reviewed on a weekly basis with refinements being undertaken where needed to reduce costs and preserve cash.
- The Company is actively engaging with landlords in all our markets to seek rent abatement for the period of close down. As it is expected that the business will be reopening its doors to a more subdued trading environment, we are also seeking ongoing rent abatement that is proportionate and fair in the circumstances for each lease.
- All planned capital expenditure has been cancelled or deferred, except for our ERP implementation. This program of work has been underway for over twelve months and will enable the Company to be more flexible and agile with the movement of inventory throughout the supply chain and across new channels. It will be implemented in the coming months.
- Discretionary operating spend has stopped and a rigorous review of all operating expenditure continues to ensure all potential savings are maximised.

3. e-commerce ramps up in Australia and Canada whilst retail stores are suspended

Currently, our e-commerce business is successfully operating in Canada and Australia with product being fulfilled from our Brisbane based distribution centre. Orders continue to be accepted on our New Zealand e-commerce site with delivery delayed until New Zealand Government restrictions are lifted.

We have intense focus on our e-commerce business and are trialing many initiatives to boost our digital sales and capabilities, such as interactive digital catalogues and direct selling. Our recently launched loyalty program has grown to more than 85,000 members, enabling us to tailor our product offering and marketing to our customers' requirements.

4. Strategy for the Post-COVID-19 environment

At Michael Hill, we believe that our business and category will be of special relevance to our customers as many of us emerge from extended periods away from those we love. There will likely be a range of opportunities for the business as trading recommences in all markets. The way in which the business has been repositioned in recent times to focus on retail fundamentals, increased branded collections, loyalty and digital will continue to strengthen its brand position and increase market share. We are actively planning to reopen our stores as soon as local laws, public health guidelines and consumer demand dictate and we will flex our operating model to take full advantage of opportunities as they present themselves.

Commenting on the Company's response to the crisis, Michael Hill International Limited, CEO Daniel Bracken said:

"We decided to suspend trading in our stores to ensure the safety and well-being of our people and our customers. We continue to support our customers over this period through our dedicated call centre, remote sales team, and online platforms.

I would like to take this opportunity to thank both our people and our customers for their unwavering loyalty and commitment to the Michael Hill brand during these unprecedented times.

The business entered the crisis on a strong footing in all markets and channels. The crisis has afforded us the ability to really focus on our digital business and we will emerge with a much bigger and stronger offering. A crisis always creates opportunities - the combination of strong performance leading into the crisis and the decisive actions we are taking to preserve cash and strengthen our balance sheet will leave us well positioned to lead the market through the recovery period and we will emerge as a stronger, leaner, and more agile business."

SEGMENT BREAKDOWN

For the first nine weeks of trade in FY20Q3 to the end of February:

- The Australian segment same store sales increased by 1.8% for the first nine weeks of FY20Q3. There were 162 stores trading at the end of February (FY19Q3: 171).
- The New Zealand segment same store sales increased by 3.5% for the first nine weeks of FY20Q3, as it continued to be the best performing segment. There were 52 stores trading at the end of February (FY19Q3: 52).

- The Canadian segment same store sales decreased by 1.0% for the first nine weeks of FY20Q3. This segment experienced an earlier drop in foot traffic due to COVID-19. There were 87 stores trading at the end of February (FY19Q3: 84).

Revenue for retail operations from the sale of goods and services for **FY20Q3**:

The following figures are in Australian dollars		Last Year*	This Year*	% Var
Total same stores	AUD	115,157,014	102,240,871	-11.2%
Total all stores	AUD	119,319,748	105,063,828	-11.9%
Same store figures in local currency				
Australia same stores	AUD	63,385,047	56,764,157	-10.4%
New Zealand same stores	NZD	25,243,793	23,121,790	-8.4%
Canada same stores	CAD	26,107,725	20,601,442	-21.1%
All stores figures in local currency				
Australia all stores	AUD	66,678,867	58,294,624	-12.6%
New Zealand all stores	NZD	25,766,043	23,715,718	-8.0%
Canada all stores	CAD	26,456,919	21,240,525	-19.7%
Exchange rates used for FY20Q3:				
New Zealand		1.04	1.04	
Canada		0.95	0.89	

Revenue for retail operations from the sale of goods and services for **YTD FY20Q3**:

The following figures are in Australian dollars		Last Year*	This Year*	% Var
Total same stores	AUD	412,700,491	418,800,988	1.5%
Total all stores	AUD	429,419,183	431,958,759	0.6%
Same store figures in local currency				
Australia same stores	AUD	226,555,038	225,549,237	-0.4%
New Zealand same stores	NZD	89,178,365	91,266,266	2.3%
Canada same stores	CAD	97,615,952	95,746,944	-1.9%
All stores figures in local currency				
Australia all stores	AUD	240,322,411	232,538,128	-3.2%
New Zealand all stores	NZD	90,842,561	93,664,865	3.1%
Canada all stores	CAD	98,940,468	99,244,647	0.3%
Exchange rates used for YTD FY20Q3:				
New Zealand		1.07	1.05	
Canada		0.95	0.90	

The above figures for Michael Hill represent eight months accounting adjusted sales results plus March 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

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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 301 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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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.