



# ANNUAL GENERAL MEETING

31<sup>ST</sup> OCTOBER 2017

**michael hill**<sup>®</sup>  
INTERNATIONAL LIMITED



# CHAIR'S AGENDA

- > Welcome
- > Year in review





# *Knots*

BY CHRISTINE HILL



# CEO REVIEW

- > Overview
- > Group Strategy
- > 2017 Highlights
- > Operational Summary
- > Q1 Trading Update

# MARKET OVERVIEW

- > **Global strategies** – internationalisation of brands and consolidation of independents, especially in North America
- > **Fragmentation of traditional marketing channels** – creating challenges around market penetration and foot traffic
- > **Branding strategies** – growth in branded jewellery set to reach 40% of total jewellery sales by 2020
- > **Reconfiguration of the channel landscape** – omni-channel, showrooming, click and collect, mono brand stores, aggregation sites and new channels...Amazon, Alibaba, Tmall....
- > **Polarisation of customer segment** – growth occurring at top end and bottom end, the middle is stagnating – blurring of lines between fine jewellery and fashion jewellery – women dressing up and down...
- > **Fashionability and acceleration of the supply chain** – retailers are teaming with designers and reacting to latest trends quickly – customers want to be different but they also want to be on trend

# GROUP STRATEGY

## **Proprietary Branded Product Collections**

- > Unique and distinct designs to differentiate in a cluttered market
- > Design will become increasingly important to both our brands
- > Gross margin premium available

## **Understand Our Customer: Increase Loyalty and Engagement**

- > Technology investment to improve insights, preferences and engagement
- > A continued obsession on servicing our customer to the highest levels

## **Inventory Management: Improve ROI**

- > Systems investment to manage surplus stock and maximise margins
- > Reduced product range to declutter stores and support the branded collections strategy

## **eCommerce Platform: Engage with new customers and grow sales**

- > Investment in multi-channel platform to help customers find and understand our brands while growing both on-line and off-line sales

## **Systems Infrastructure Investment: Build capability and grow scalability**

- > Improving capability through migrating to a full MS Dynamics ERP environment over the next three years to support existing finance, logistics, merchandise, CRM and Point of Sale capabilities

## **Discover and Nurture Talent: Our People**

- > Continued focus on attracting talent to improve capability for tomorrow's challenges
- > Increased investment in developing our people's skills and competencies

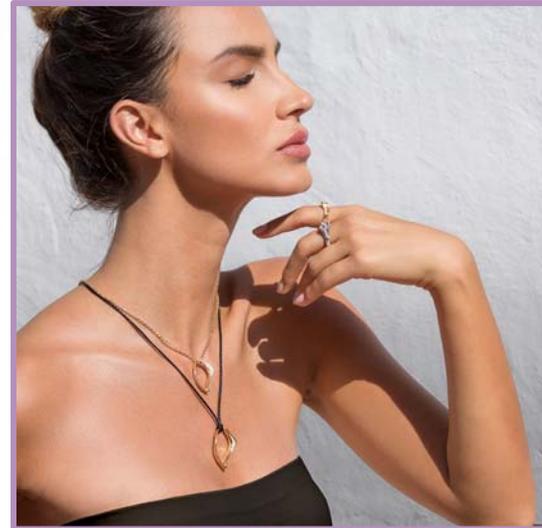
# 2017 HIGHLIGHTS

**\$48.1 million**

Record EBIT  
▲ 2.3%

**63.5%**

gross  
margin



**\$39.8 million**  
Operating net cash inflow



**\$583 million**  
Group revenue ▲ 5.8%

**\$39.7 million**

Professional Care Plan  
sales ▲ 1%

**5c AUD**

Dividend  
2016: 4.75c



**1.6%**

same store  
sales growth

# 2017 HIGHLIGHTS



**NZ\$22.6 million**

settlement paid to  
NZ Inland Revenue



**52%**

Equity ratio

2016:48.5%

**\$39.4 million**

Net debt

2016: \$32M

**US\$1.3 million**

asset write-down and  
impairments

**\$77.1 million**

Deferred PCP Revenue



# 2017 HIGHLIGHTS

## Record profits

NZ, Australia, Canada

## 8.8% Canada

same store sales growth



## 13 Michael Hill

stores opened

## 13 Emma & Roe

stores opened

## 332 stores

including 29 Emma & Roe



# MICHAEL HILL AUSTRALIAN

## RETAIL SEGMENT

- > Modest same store sales growth of 1.2% in a tough retail market
- > EBIT lift of 3.4% to a record \$52.4m
- > Focus on improved productivity and cost control
- > 10 stores relocated, 3 stores refurbished to the latest design and layout, 3 new stores opened and 5 closed, leaving a total of 166 trading at the end of the period

For the year ending	2017	2016	move
Revenue	322.0m	309.5m	4.0%
EBIT	52.4m	50.7m	3.4%
EBIT as a % of revenue	16.3%	16.4%	-0.1%
Total stores open	166	168	-2

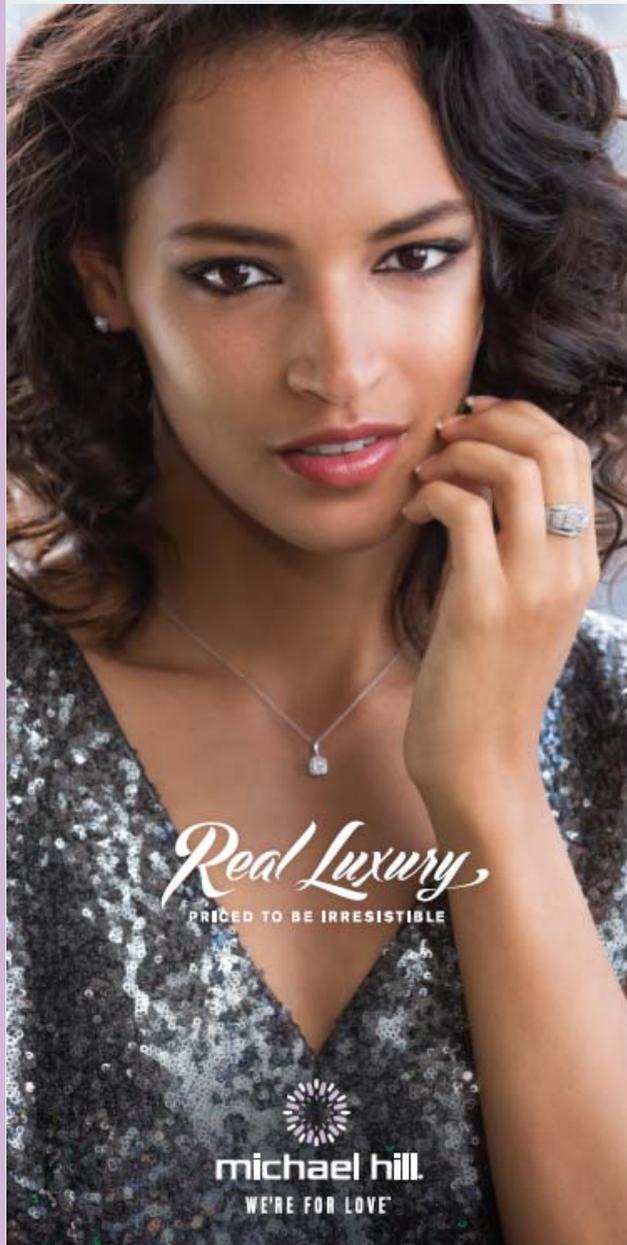


# MICHAEL HILL NEW ZEALAND

## RETAIL SEGMENT

- > Like for like store sales slipped by 0.8% on prior year
- > Focus on variable costs helped deliver a record EBIT of NZ\$28.0m
- > One store opened at Christchurch and one store closed during the period, leaving a total of 52 stores

<b>For the year ending</b>	<b>2017</b>	<b>2016</b>	<b>move</b>
Revenue	122.0m	122.9m	(0.8%)
EBIT	28.0m	27.3m	2.6%
EBIT as a % of revenue	23.0%	22.2%	+0.8%
Total stores open	52	52	



*Real Luxury*  
PRICED TO BE IRRESISTIBLE

  
**michael hill.**  
WE'RE FOR LOVE™



NEW  
**\$1499**



NEW  
**\$449**



NEW **\$199** EACH



NEW **\$89**

THE STYLE EDITION

45 INCREDIBLE  
NEW PIECES

*most loved metal*  
Explore the glow of rose gold

MOST  
EXCITING  
TRENDS

Vintage engagement rings  
Exclusive Italian gold  
All the hues of sapphire

  
**michael hill.**  
WE'RE FOR LOVE™

# MICHAEL HILL CANADIAN

## RETAIL SEGMENT

- > Revenue grew by 18.1% to C\$112.7m
- > Like for like store sales grew by 8.8%
- > EBIT increased 38.1% to a record CA\$12.6m
- > This segment is benefitting from a strong and stable leadership team and from improved brand recognition and market share
- > 9 new stores opened giving a total of 76 stores operating at 30 June 2017

<b>For the year ending</b>	<b>2017</b>	<b>2016</b>	<b>move</b>
Revenue	112.7m	95.4m	18.1%
EBIT	12.6m	9.1m	38.1%
EBIT as a % of revenue	11.1%	9.5%	+1.6%
Total stores open	76	67	+9

# MICHAEL HILL US

## RETAIL SEGMENT

- > Revenue down 8.5% for the same stores
- > Store closure and impairments resulted in US\$1.32 million write downs
- > Management change and marketing experimentation continues
- > US business under review - in September 2016, the US was put under the leadership of our North American President who has delivered outstanding results in Canada. The Board and executive team continue to closely monitor the US business

For the year ending	2017	2016	move
Revenue	12.5m	14.2m	(12.0%)
EBIT	(3.8m)	(2.6m)	(47.2%)
EBIT as a % of revenue	(30.3%)	(18.1%)	-12.2%
Total stores open	9	10	-1

# EMMA & ROE

## RETAIL SEGMENT

- > Sales growth of 61.7% with like for like store sales declining 2.1% for the period
- > 13 new stores opened during the year including the first in NSW
- > Brand review was initiated in early 2017 due to revenue forecasts not being met and losses growing faster than anticipated. Review was still underway at end of the 16-17 year.
- > Further store expansion plans put on hold pending brand review completion

For the year ending	2017	2016	move
Revenue	15.1m	9.3m	61.7%
EBIT	(6.9m)	(2.4m)	(186.0%)
EBIT as a % of revenue	(45.9%)	(26.0%)	-19.9%
Total stores open	29	16	+13



# 2017-18 PRIORITIES

- > Same store sales growth in all markets and for both brands through our continued focus on selling skills and productivity improvements
- > 10 new Michael Hill stores planned for 17-18
- > Completion of the Emma & Roe brand review and consideration given to its recommendations, with likely adjustments to the E&R model in the second half
- > Reduce the US operating losses and determine if we can achieve the level of productivity required for success in this market
- > Continued emphasis on developing Branded Collections
- > Further emphasis on our eCommerce and Omni-channel capability
- > Continued investment in key IT and business systems
- > Testing other retail formats such as clearance stores, and assess and consider other channels such as Amazon



*Sir Michael Hill*  
DESIGNER BRIDAL COLLECTION

▲ MICHAEL HILL ▲  
**DIAMOND WATCH COLLECTION**



# Q1 TRADING UPDATE



**3.5%** ↑ same store sales growth

**7.8%** ↑ sales increase

**10 Michael Hill**  
stores opened

**1 Emma & Roe**  
store opened

**12.3%** ↓  
same store sales

**27.4%** ↑ sales increase

**Emma & Roe**



**3.8%** ↑ same store sales growth

**7.4%** ↑ sales increase

**Michael Hill**

**343** stores trading

**313** Michael Hill

**30** Emma & Roe

# Q1 TRADING UPDATE



**9% ↓**  
same store sales  
**14.8% ↓** sales  
**US**



**4.2% ↑** same store sales growth  
**6% ↑** sales increase  
**Australia**



**5.1% ↑** same store sales growth  
**6% ↑** sales increase  
**New Zealand**

**4 more Michael Hill stores to open**  
in December quarter

**7.6% ↑** same store sales growth  
**22% ↑** sales increase  
**Canada**



The image features a purple-tinted background with a soft, out-of-focus photograph of a person's hands. The hands are positioned in the center, with fingers slightly spread, as if in a gesture of gratitude or prayer. The overall mood is serene and appreciative. The text 'THANK YOU' is centered in a bold, white, sans-serif font.

**THANK YOU**



**BUSINESS  
OF THE  
MEETING**

# FINANCIAL REPORT

## **Receive and consider the Financial Report for the year ended 30 June 2017**

The financial report of Michael Hill International Limited and the reports of the Directors and of the Auditors for the financial year ended 30 June 2017 (2017 Annual Report) is tabled for discussion.

# RESOLUTION 1:

## REMUNERATION REPORT (ADVISORY RESOLUTION)

**To consider and, if thought fit, to pass the following advisory Resolution:**

*“That, the Remuneration Report for the year ended 30 June 2017  
(as set out in the Directors Report) is adopted.”*

	<b>FOR</b>	<b>AGAINST</b>	<b>OPEN</b>	<b>ABSTAIN</b>	<b>EXCLUDED</b>
NO. OF SHARES	250,597,077	203,898	1,063,211	4,318,142	21,156,926
% OF ELIGIBLE VOTES	99.50%	0.08%	0.42%	N/A	N/A
% OF ALL SECURITIES	64.68%	0.05%	0.27%	1.11%	5.46%

# RESOLUTION 2:

## RE-ELECTION OF ROBERT IAN FYFE AS A DIRECTOR

**To consider and, if thought fit, pass the following resolution, as an Ordinary Resolution of the Company:**

*“That Robert Ian Fyfe, who retires by rotation in accordance with Listing Rule 14.5 and Article 38.4 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director.”*

	<b>FOR</b>	<b>AGAINST</b>	<b>OPEN</b>	<b>ABSTAIN</b>	<b>EXCLUDED</b>
NO. OF SHARES	257,946,947	14,282,356	1,044,526	4,053,472	0
% OF ELIGIBLE VOTES	94.38%	5.23%	0.39%	N/A	N/A
% OF ALL SECURITIES	66.58%	3.69%	0.27%	1.05%	0.00%

The image features a purple-tinted background with a soft, out-of-focus photograph of a person's hands. The hands are positioned in the center, with fingers slightly spread, as if in a gesture of gratitude or prayer. The overall mood is serene and appreciative. The text 'THANK YOU' is centered over the image in a clean, white, sans-serif font.

**THANK YOU**