

## ASX & NZX ANNOUNCEMENT MICHAEL HILL INTERNATIONAL LIMITED 1H2018 RESULTS

**Brisbane, 21 February 2018:** Michael Hill International Limited (ASX and NZX: MHJ) today announced its financial results for the half year to 31 December 2017.

### Key Financial Results

- Operating revenues increased by 4.5% to \$342.2m (1H2017: \$327.5m)
- Group same store sales increased by 0.3% to \$316.8m (1H2017: 0.8% increase)
- Statutory net profit after tax profit of \$8.7m (1H2017: \$25.8m)
- Statutory earnings before interest and tax of \$15.1m (1H2017: \$40.0m)
- Underlying earnings before interest and tax of \$34.9m (1H2017: \$40.0m), which is calculated by excluding the pre-tax adjustment of \$19.8m for onerous leases and provisions for impairment relating to the planned exit from the US market and the repositioning of the Emma & Roe brand
- Net operating cash flow increased by 165.7% to \$42.3m (1H2017: \$15.9m)
- Net debt reduction of 37.3% to \$23.0m (1H2017: \$36.6m)
- Equity ratio reduced to 47.1% (1H2017: 48.9%)
- eCommerce sales increased by 73% to \$5.6m (1H2017: \$3.3m)
- Interim dividend of AU 2.5 cents per share, in line with 1H2017, unfranked and fully imputed

### Operational Performance

- Solid performance of the Michael Hill brand, particularly in Canada
- Opened 14 new Michael Hill stores to bring total Group stores to 347
- Michael Hill total store sales growth of 4.1% and same store sales growth of 0.5%
- Emma & Roe total store sales growth of 20.1% and same store sales decline of 5.4%

Commenting on the announcement of the Company's first-half results, Chief Executive Officer, Phil Taylor, said: "For the period, the Group increased its overall revenues and achieved same store sales growth despite challenging retail conditions and underperformance of the US and Emma & Roe businesses.

"The Company's core Michael Hill businesses in Australia, New Zealand and Canada performed strongly during the first-quarter before experiencing a slowdown in the second quarter, in particular the November trading period, where sales fell short of expectations. This challenging November period, combined with a heavier investment in our marketing efforts, resulted in a flat EBIT result from the combined three businesses.

"Canada continues to deliver exceptional growth – increasing both its revenues and EBIT by 17.6% – and the Company is actively seeking further opportunities to expand the business and capture additional market share. This includes the opening of seven new stores in the first-half, with current plans to expand store numbers to 105 in the next two to three years.

"We are also pleased with the progress of our omnichannel strategy with 73% growth achieved in eCommerce sales during the first half. This gives us confidence that we are taking the right steps towards delivering a fully integrated omnichannel experience for our customers.

"Management is taking steps to strengthen our core businesses through a continued focus on the productivity of our stores, and significant growth opportunities presented by a repositioned Emma & Roe brand, further expansion of Michael Hill in Canada and enhancements to the Group's omnichannel strategy.

"The Group also made significant progress in working through the business challenges it faced in the first-half, leading to a decision in January 2018 to exit the US and reposition Emma & Roe into a new market segment with a material reduction in stores. We are confident these strategic actions will deliver greater long-term value for shareholders and we currently expect the exit of the US and repositioning of Emma & Roe to be completed by the end of FY2018.

“Good progress is also being made in preparing for the transition of Emma & Roe into the demi-fine jewellery segment and we are planning for the first of our redesigned stores and a redeveloped on-line offering, to be ready for the beginning of the new financial year,” Phil Taylor said.

### **1H2018 Business Performance**

The Group reported a statutory half-year net profit after tax (NPAT) of \$8.7m for the six months ending 31 December.

Underlying earnings before interest and tax (EBIT) for the period was \$34.9m, the decline of 12.6% largely attributed to the ongoing deterioration in performance of the Company’s US operations and Emma & Roe business, a challenging November trading period and increased expenditure in the Group’s marketing activities.

Statutory EBIT was recorded at \$15.1m for the first half, including \$19.8m (pre-tax) in one-off non-cash accounting recognition of onerous leases and provisions for impairment relating to the closure of the Company’s US and Emma & Roe stores.

Total Group revenues for the first-half rose to \$342.2m, up 4.5%, with same store sales growth increasing by 0.3% to \$316.8m. The Company’s e-commerce revenues increased by 73% to \$5.6m, with online sales now accounting for 1.7% of total Group revenues.

The Company strengthened its balance sheet by reducing net debt to \$23.0m from \$36.6m in the same period last year, while net operating cash flows increased back to normal levels at \$42.3m, compared to \$15.9m in the prior comparable period.

The Company opened 14 new Michael Hill stores to bring total Group stores to 347 at the half-year, including 30 for Emma & Roe.

The Group strengthened its executive team with a new Chief Financial Officer, Andrew Lowe, and Chief Customer Officer, Vanessa Brennan, commencing during the period. The executives bring a wealth of experience to the management team and will be instrumental in driving the business strategy forward in the future.

The Company will pay an interim dividend of AU2.5¢ per share, in-line with the prior period, unfranked and fully imputed. The dividend will be paid on 29 March 2018.

### **Australian Retail Segment – Michael Hill**

The Australian segment faced challenging retail conditions in the first half resulting in flat same store sales. Total first-half revenues increased to \$185.0m, up 1.6%, with the increase in gross profit margin to 63.5% particularly pleasing. However, results for the period were affected by a challenging November trading period and an increase in marketing costs, resulting in a first half EBIT of \$32.6m, down from \$33.7m in the prior corresponding period. December 2017 trading was steady on the prior year, with 2018 trade in January and February (to date) slightly up on the previous year.

### **NZ Retail Segment – Michael Hill**

The New Zealand segment achieved solid revenue growth of NZ\$69.7m for the first-half, an increase of 4.2%, and same store sales growth of 3.5%. A slight decline in gross margin of 0.3% combined with an increase in our payment plan costs resulted in EBIT declining 4.6% to NZ\$15.8m for the half. A series of actions have been implemented with the aim of addressing the gross margin shortfall and bringing payment plan costs back down to previous levels.

### **Canada Retail Segment – Michael Hill**

Canada continues to be a major growth opportunity for the Group following another strong first half result reflecting strong leadership and improved brand recognition. Revenues increased 17.6% to CA\$73.7m with same store sales also lifting 4.1%. The segment recorded a 17.6% rise in EBIT to CA\$10.4m, supported by strong sales and an increase in gross profit margin of 1.0%. The Company now has 83 stores and plans to add a further store in the current period.

## US Retail Segment – Michael Hill

The performance of the US segment continued to deteriorate and resulted in the Group announcing in January its decision to exit its operations in the country. Revenues declined 15.2% to US\$6.0m, while the segment contributed to an underlying EBIT loss of US\$2.1m. The Statutory EBIT loss was US\$5.6m, including a US\$3.5m charge for onerous leases and impairment of assets.

The Company continues to explore its options to exit, either via the successful sale of the business or through reaching agreement with the landlords of the nine stores. This is currently planned to be completed by the end of FY2018.

## Emma & Roe

While total revenues grew 20.0% to \$10.5m in the period due to an increase in stores, same store sales growth declined by 5.4% with the Emma & Roe business incurring an underlying EBIT loss of \$4.4m for the first half. Statutory EBIT was recorded at a loss of \$19.6m, including a \$15.2m impairment for onerous leases and impairment of assets.

In January, the Company announced it would reposition the Emma & Roe brand into demi-fine jewellery, an emerging segment of the market combining fine jewellery with fashion for those customers seeking stylish yet affordable items to accessorise their wardrobe. This new proposition will include a smaller, more concentrated store footprint as the Company trials the new concept. A decision on the new Emma & Roe store footprint is intended to be made in the coming month, pending further landlord discussions.

Statements above represent the current intentions and expectations of the Board which may change due to matters outside the Company's control or where alternative courses of action or decisions are considered to be in the best interests of the Company.

ENDS

## Analyst and investor call

An analyst briefing on the results will be held today at 10.00am (Brisbane, Qld time).

The webcast link for the conference call is <https://edge.mediaserver.com/m6/p/dd9vfb2z>.

Dial-in details to the briefing can be found on the 'events' section of the website at <http://investor.michaelhill.com>.

All participants will be asked for their full name & passcode when joining the call.

### Media:

Brendan Altadonna  
GRACosway  
+61 409 919 891  
baltadonna@gracosway.com.au

### Investors:

Phil Taylor  
Chief Executive Officer  
+61 7 3114 3507  
phil.taylor@michaelhill.com.au

## 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 347 stores globally with 317 Michael Hill stores in Australia, New Zealand, Canada and the US, and 30 Emma & Roe stores in Australia and New Zealand. 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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