michael hill

INTERNATIONAL LIMITED

ASX AND NZX ANNOUNCEMENT

MICHAEL HILL FY19H1 RESULTS

RESULTS REFLECT A BUSINESS IN TRANSITION

26 February 2019

Michael Hill International Limited (ASX and NZX: MHJ) today released its group financial results for the half year to 31 December 2018.

Key Financial Results

- **Statutory net profit after tax increased** by 125% to $19.5m (FY18H1: $8.7m).
- **Statutory earnings before interest and tax increased** by 88% to $28.5m (FY18H1: $15.1m).
- Underlying earnings before interest and tax declined by 16% to $29.6m (FY18H1: $35.2m).
- Group operating revenues declined by 2.7% for the half.
- Gross margin stable at 62.6% (FY18H1: 62.7%), despite FX headwinds impacting cost of goods.
- Same store sales declined by 6.1% for the half, reflecting an improvement in Q2 (down 3.0% to LY) compared to Q1 (down 11.0% to LY).
- Net debt reduction of 9.7% to $20.7m (FY18H1: $23.0m).
- Interim dividend maintained at AU 2.5 cents per share, unfranked and fully imputed with conduit foreign income.

Operational Performance

- e-commerce sales increased by 68.3% to $9.5m (FY18H1: $5.6m).
- Branded collection sales increased by 11% to 20% of total sales (up from 18% of total sales for FY18).
- Implementation of cost reduction programme, delivering $5m in annualised savings and targeting a further $5 million in annual savings.
- Six Michael Hill stores opened and three under-performing stores were closed during the period, giving a total of 311 stores trading at 31 December 2018.

Commenting on the first-half results, Chair Emma Hill, said: *"The company made a series of challenging but necessary changes over the past year, as it transitioned to a new strategy focused on the core Michael Hill brand and long-term sustainable growth.*

"The Board is committed to this strategic repositioning, as we make further refinements to achieve the right balance between our brand, product and sales initiatives, while simultaneously driving greater operational efficiencies.

"The Board recognised the need to accelerate change and quickly identified a proven talent in new CEO Daniel Bracken as the best person to add value to our strategy and take the business forward. Since joining the company in mid November, Daniel has already proven to be an outstanding addition and the Board is energised by his early contributions and insights. We look forward to Daniel further embedding his deep retail experience and leading the business through its strategic journey.

"The company enters this new era under Daniel with plenty of enthusiasm, but also with a number of key learnings from the past 12 months. As we've previously outlined, a shift away from a high frequency of deep discount event days had a material impact on revenues during the July to October period. A more integrated approach to our promotional and sales activities was made ahead of the Christmas trading period, which resulted in a strong turnaround in sales momentum across November and December, but not at a sufficient level to offset the lower trading volumes experienced in the four months prior.

"Despite these challenges, the company proved resilient and again delivered a strong result in our e-commerce business, which grew by 68.3% during the period, and in branded collections, which now represents 20% of all product sales. The

company also delivered a stable gross profit margin, which was a pleasing result achieved in a competitive retailing environment where many operators are sacrificing on margin to drive top-line sales."

Key Priorities for FY19H2

In August 2018, the company announced a series of strategic shifts. Following an initial review over his first three months, new CEO Daniel Bracken has identified refinements to the plan and further opportunities to strengthen the retailing fundamentals of the business. These include:

- Execution in January 2019 of a cost reduction programme delivering $5 million in annualised savings.
- Initiatives targeting a further $5 million in annualised cost savings.
- Implementation of a more sophisticated and integrated customer-led retail operating model.
- Acceleration of the branded collections strategy.
- Opportunities to reinvigorate the company's merchandising and inventory management end-to-end processes.
- Productivity improvements in the Canadian market.
- Targeted activation of scaleable digital and omni-channel strategies.
- A number of initiatives to drive greater efficiencies across the global store network and supply chain.

Commenting on the key initiatives, CEO Daniel Bracken, said: *"The past three months have validated my initial views on the business that there is enormous potential to leverage the brand strength and heritage of Michael Hill, with a modern approach to retailing which further differentiates our offering across the three markets globally.*

"There are significant opportunities ahead of us, but first there is more work to be done to deliver a more sustainable and customer centric operating model.

"The first half presented some significant challenges, so our immediate focus is to restore financial performance, reset our agenda and deliver our long-term strategy for sustainable growth. We have identified refinements to the plan and initiatives to strengthen the retailing fundamentals of the business. We recognise that we need to deliver this in a volatile retail environment where some of the challenges experienced in the first half persist.

"The first of these initiatives was the delivery of a $5 million annualised cost reduction program in January 2019. With an ongoing focus on costs, the implementation of a new operating model and the delivery of a number of initiatives across brand, product, stores and digital, Michael Hill will establish itself as a modern and contemporary retailer.

FY19H1 – Group Business Performance

The Group reported a statutory half-year net profit after tax (NPAT) of $19.5m for the six months ending 31 December, a 125% increase from NPAT of $8.7m in FY18H1.

Statutory earnings before interest and tax increased by 88% to $28.5m, from $15.1m in the prior corresponding period, which included prior one-off closure costs associated with the Emma & Roe and US businesses. Underlying earnings before interest and tax (EBIT) for the period was $29.6m, with the decline of 16% largely attributed to the trading performance during the July to October period. The company shifted its strategy during this four-month period to move away from discounting, which had a significant impact on revenue. A refined approach to event and promotional campaigns in November and December saw an improvement in performance, with Group revenue for continued operations and same store sales increasing by 2.9% and 1.1% respectively across the two-month Christmas period.

Total Group revenue for the first-half was $315.4m (down 2.7% on prior year), as a result of weaker trade during the first four months of the half. The company's e-commerce revenue increased by 68.3% to $9.5m, with online sales now accounting for 3.0% of total Group revenue.

The company strengthened its balance sheet by reducing net debt to $20.7m from $23.0m in the same period last year. In line with the Company's policy to provide consistent dividends to shareholders whilst maintaining a strong balance sheet, the Company will pay an interim dividend on 27 March 2019 of AU2.5¢ per share, unfranked and fully imputed with conduit foreign income (FY18H1 interim: AU 2.5c per share; FY18 final: AU 2.5c per share).

In addition to a new CEO, in January the Group also strengthened its Executive team with the appointment of a new Chief Operating Officer, Andrea Slingsby, and Chief People Officer, Joanne Matthews. Both Executives bring deep retail experience and skills to the company during this critical period of transition.

The company opened six new stores and closed three under-performing stores, to bring total Group stores to 311 at the half-year. Michael Hill management continues to manage the structured closure of the US and Emma & Roe operations.

Retail Segment Performance*

The Australian segment was most heavily impacted by the changes made to discounting during the first four months. Despite improvements made during the Christmas period, total revenues for the first half declined by 5.1% to $175.5m, with EBIT down 24.4% to $24.6m. Gross profit margin was stable at 63.0%. To drive improved performance, the company has adjusted its management structure in Australia.

The Canadian segment performance saw revenue growth of 0.9% to $74.4m, while EBIT declined from $10.4m to $8.6m, largely attributable to increased investment in the company's workforce and higher labour costs arising from mandatory indexation and market forces. The company's margin in Canada remained stable at 61.8%. Canada remains a core growth opportunity for the business, and a series of measures to improve productivity and sales are being undertaken to drive performance during the second half.

The New Zealand segment recorded revenues of $65.8m, down from $69.7m in the prior corresponding period, with EBIT of $15.1m, down from $15.8 in FY18H1. However, gross profit margin lifted to 62.7% for the half against the prior corresponding period.

**Amounts in local currency.*

Company Secretary Appointment

For the purposes of ASX Listing Rule 3.16 and all other purposes, the company advises that the Board has appointed Andrew Lowe (CFO) as the company secretary with effect from 1 March 2019.

Important Note

The above represents the current decisions and intentions of the company; further information will be provided if the company's decisions or intentions change or the company has new information, in accordance with the company's disclosure obligations.

ENDS

Analyst and investor call

An analyst briefing on the results will be held today at 9.00am (Brisbane, Qld time).

The webcast link for the conference call is https://edge.media-server.com/m6/p/fmbgnt4w.

Dial-in details to the briefing are as follows:

Dial-in: 1800 093 431 or +61 2 8047 9393 (New Zealand Toll-Free: 0800 452 257)
Passcode (listen-only): 83932630#

Additional international calling codes and further details can be found http://investor.michaelhill.com.at http://investor.michaelhill.com/static-files/d2018270-36ca-42cb-9ed2-1d5c39e200bd.

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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 311 stores globally with 309 Michael Hill stores in Australia, New Zealand, Canada and the US, and 2 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:
www.investor.michaelhill.com
www.michaelhill.com.au
www.emmaandroe.com.au

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.