

CHAIR, CEO & CFO ADDRESS ANNUAL GENERAL MEETING

24 October 2019

CHAIR'S ADDRESS

Good morning and welcome to the Michael Hill International Limited 2019 Annual General Meeting. I'm Emma Hill, Chair of the Board of Directors and it is my pleasure to chair today's meeting.

At the outset, we would appreciate your cooperation in making sure your mobile phones are on silent. Please be advised that recording devices, photographic equipment and mobile phones may not be used during the meeting.

Our Company Secretary has confirmed that a quorum is present, so I formally declare the meeting properly constituted and open.

I would like to introduce you to our Board members and Michael Hill's executive team who are here today. Seated next to me are our directors, Sir Michael Hill, Gary Smith, Janine Allis and Rob Fyfe. As well, we have Daniel Bracken, our Chief Executive Officer; and Andrew Lowe, our Chief Financial Officer and Company Secretary. In addition, we have seated in the audience some of Michael Hill's executive management team: Vanessa Brennan, Chief Brand and Customer Officer; Joanne Matthews, Chief People Officer; and Matt Keays, Chief Information Officer. Alison de Groot, of Ernst & Young, the company's auditor, is also present.

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

2019 was a year of transition and change. The board, and the executive, are not satisfied with the financial results, and we have actioned a range of measures to improve performance. Over the course of the year we have worked hard to reset our business for the future.

As these new initiatives and strategies gain momentum, we are confident in our ability to grow market share and improve results. We can and should be a significantly more profitable business than we were in 2019.

I'd like to talk first of all about leadership. The most important change we made in the year was to strengthen our executive team.

Our new CEO Daniel Bracken joined the business in mid-November. Daniel is an experienced leader who brings a fresh perspective to what it means to be a successful retailer today. In a short period of time he's imbedded a more responsive and collaborative operating rhythm into the group resulting in positive sales momentum.

With Daniel on board, we reviewed our corporate structure. Joanne Matthews was appointed our Chief People Officer. She brings relevant experience in change management and people practices from her career spanning retail and sales led organisations. Joanne has made significant advancements across all areas of our people proposition since her commencement.

Early in the New Year we appointed Andrea Slingsby as our Chief Operating Officer responsible for store P&L delivery. Andrea brought to us experience in people focused fast growing companies, business model improvement and operational excellence.

Running a successful retailer in the 21st century requires a team with diverse expertise who can adapt strategy, and execute transformation at speed. The team that is running Michael Hill today can more than meet that challenge.

Moving onto strategy. Over the past 12 months we have made great progress implementing our strategic initiatives. We are on a multi-year journey to transform from a traditional to a modern retailer. Our vision is to be the most loved jewellery destination. Making fine jewellery accessible has always defined us. Our aim is to meet the needs of our customers, so they can celebrate love in all its forms, regardless of how they choose to engage.

Over the year we continued to invest in critical components for retail success. We strengthened all aspects of our business, from the front end to the back. We have made good progress with our digital and data capability, a key enabler for a more relevant personalised customer experience. Our new loyalty program, designed to forge deeper and more engaged relationships, is currently under trial.

Continued growth in our branded collections differentiates our offer and provides deeper meaning to our customers. All these actions have been married with an overarching focus on core retail disciplines – execution in store, visual merchandising, marketing and campaign effectiveness, buying and inventory management, and rigorous cost control.

Another wonderful example of the change we are implementing is our recent 40th birthday celebration, this showcased the strength of the new integrated operating model with all components of the retail experience fitting seamlessly together to deliver a unique reason to engage with Michael Hill.

We celebrated our 40th birthday with jewellery designs inspired by influences prevalent over the last four decades, and our revamped shopfront, however you encountered it, was eye catching and intriguing. We wove sketches drawn by Michael through our digital and physical presence, bringing a playful curiosity to our brand. This energised our sales teams and captured customer interest. The success of our integrated approach is clearly visible in the first quarter's sales growth.

Moving onto culture. High standards of culture and conduct have always been important to us. Putting our customers first while looking after our team members has been fundamental to our long-term success.

During the year, we were very disappointed to discover a misapplication of the General Retail Industry Award which affected many of our store based Australian teams. We moved quickly and decisively to self-report this mistake and committed to a thorough process to put it right. On behalf of the company I would like to sincerely apologise to our team members and stakeholders who have been affected by this misapplication. I'm pleased to announce that the program to remediate the misapplication is well underway and on track. We have a dedicated team working in partnership with PwC to ensure we accurately identify individuals affected and the quantum of any underpayment. Our remediation activities are also focused on improving our systems and processes to ensure such errors do not recur. Though this remediation program is complex and time consuming, we are taking a phased approach and are confident that all activities will be complete by the end of this financial year. We are sorry the error occurred and assure you that we are committed to compliance and improved practices.

To close, there is no doubt that 2019 was a tough year, and our numbers show that. But what the numbers don't show is the significant strengthening of our company that has taken place. The results don't yet reflect the skill, commitment, and determination of our team who I would like to acknowledge and thank. Challenging times often bring out the best in people and that was absolutely true of the Michael Hill team in 2019.

Although the competitive environment continues to pose a challenge, we have taken and will continue to take the steps necessary to succeed. We have the team, the culture and the ambition, to outperform. And that is why we look forward with confidence.

And now I'd like to share with you a video that has done a wonderful job of capturing the essence of the Michael Hill company story from our very beginnings up until today.

I now invite our CEO, Daniel Bracken and CFO, Andrew Lowe to address the meeting on the 2019 annual and first quarter 2020 trading update.

CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you, Emma. Good morning and thank you for joining us today. Together with Andrew we will review the FY19 performance. We will also provide you with some insights into key initiatives for FY20, and an update on our first quarter trading performance.

But first I'd like to show you a video on our employee value proposition which we updated only last month.

FY19 was a significant year for the company, with the US closure completed and the final steps towards the winding up of the Emma & Roe brand. However, it was also a year that heralded positive strategic groundwork across the business, and a number of changes to senior management.

While we were disappointed with the final result, we were certainly pleased to see the positive sales momentum across the four quarters, and ending with Q4 delivering positive comparative sales for the first time in the year.

When I was considering the opportunity to join Michael Hill at the end of last year, I made a number of key observations that contributed to my decision to join the company.

Michael Hill is:

- An iconic brand built on a deep heritage of innovation and creativity

- A team and culture that demonstrates agility and strives to be best-in-class
- A highly receptive, engaged and committed Board; and
- A founder who is as energised today, as he was 40 years ago when he started this extraordinary business.

These reasons for joining Michael Hill continue to drive my passion for leading this great business.

We've strengthened the leadership team and aligned with the Board on the strategy for the company. I'm particularly pleased with the sense of purpose and urgency in the business which is visible in stores and at head office.

Through the course of FY19, the business demonstrated quarter on quarter same store sales recovery. From down 11% for Quarter 1, down 2.9% for Quarter 2, down 1.5% for Quarter 3 and then up 0.7% for Quarter 4.

These results illustrate that the sudden shift away from aggressive discounting during the July to October period did heavily impact our revenue and financial performance for the FY19 year.

However, we have learnt from this experience, and are introducing a more integrated retail operating model. Put simply, we know we need to be competitive and profitable – and to do that we need world class retail disciplines along with beautiful products that are only available at Michael Hill. This has been the absolute core of my focus since starting and it will remain so in the coming years.

This year we substantially strengthened the retail experience in the executive team. Along with my appointment as CEO, we have added Andrea Slingsby in the newly created Chief Operating Officer role and Joanne Matthews as Chief People Officer.

I have 100% confidence in the entire executive team. We are completely aligned with each other and the Board, and we are all focussed on delivering the strategy. There is a determination to keep the sales momentum building and a healthy impatience to rapidly modernise our business.

In my first few months with the business, we conducted an end-to-end review which identified many avenues to improve our performance. Some of these improvements were straightforward and swiftly implemented. Some were outlined in our first half results as key initiatives which have been underway with great enthusiasm. I have also updated these key initiatives for FY20 which I will discuss later in this presentation. However, it is important to note that as a team we have re-affirmed the strategic priorities as essential to our success and they will continue to shape the business moving forward.

We are committed to the modernisation of our business and focusing on retail fundamentals. We have commenced the journey of improving our on-line business to drive increased customer relevancy in a rapidly changing retail environment. An early roll out of our new retail operating model commenced in March, with a "Diamond Event" which, for the first time, aligned merchandise, marketing, and retail execution. This encompassed the launch of new branded bridal collections, and a revitalised marketing campaign.

And finally, I'm also encouraged by the heightened fiscal discipline we have introduced to the business during the year. There has been an intense focus on supplier relationships which links into our working capital and inventory management, including return of aged stock. The cost of doing business has been closely managed by implementing a stronger internal review and approval process.

We have emerged from a transitional year in a tough trading environment as a more resilient business with a strengthened management team that is highly aligned to the strategy and is executing at pace.

Prior to speaking to the FY20 key initiatives, I will now hand over to Andrew to address the FY19 results and the FY20Q1 trading update.

CHIEF FINANCIAL OFFICER'S ADDRESS

Thank you, Daniel.

As Emma and Daniel have mentioned, we are disappointed with the FY19 results. However, despite having a challenging Q1, same store sales performance momentum recovered quarter on quarter. In order to achieve this momentum in the current competitive retail environment, we experienced compressed margin across all segments.

With the introduction of stronger fiscal discipline to the way we do business, we undertook a corporate "cost out" program in FY19H1 which will deliver a \$5m annualised benefit in FY20.

Furthermore, there was a deliberate focus to reduce inventory, which has cleansed aged and off-range stock. This assisted in reducing our net debt and improved our working capital position.

In August we announced the Group reported a net profit after tax of \$16.5m for the full year ended 30 June 2019 compared to a restated net profit after tax of \$1.6m for FY18. These results for FY19 also included employee remediation costs of \$4.5m, one-off aged stock inventory impairment of \$6.0m and employee restructure costs of \$2.0m.

The Company also reported statutory EBIT of \$21.1m for FY19 compared to a restated FY18 EBIT of \$8.9m. Underlying EBIT for the period was \$34.6m, compared to \$40.1m for FY18.

Key results to point out include:

- Due to the competitive retail environment and the company's shift away from aggressive discounting for the first four months of the year, same store sales were down by 3.3% to \$524.7m.
- The active inventory management program along with the one-off aged inventory impairment of \$6.0m has seen inventory levels reduced to \$179.5m at year end, down from \$192.1m for the prior year. This focus on working capital along with the cost-out program and renegotiated vendor payment terms has contributed to the reduction in net debt to \$24.8m, down from \$28.0m in FY18.
- Our gross margin declined to 62% from 63.7%, as the business focussed on sales recovery.
- And the Board declared a final dividend of Australian 1.5 cents per share, unfranked and fully imputed with conduit foreign income, giving a full year dividend of Australian 4 cents per share (compared to FY18 total dividends of Australian 5 cents per share).
- The continued investment and development of the company's e-commerce business resulted in record on-line revenue of \$16.0m for the full year (up 43.6% on FY18) and now represents 2.8% of total sales.
- The launch of a number of new branded bridal collections and a concentrated marketing focus saw branded collections representing 32.5% of total product sales for the full year.
- Retail segment revenue was up 1.8% for Canada but down across Australia and New Zealand in local currency.

Group Revenue declined by 1.1% to \$569.5m.

As I previously mentioned, statutory EBIT was up, to \$21.1m for the year ended 30 June 2019, compared to restated EBIT of \$8.9m for the prior year. We experienced a 13.7% decline in Group underlying EBIT from \$40.1m to \$34.6m.

As part of our decisive store portfolio management, 10 Michael Hill stores were opened, and 11 under-performing stores were closed, along with five Emma & Roe Stores. 306 stores were trading at 30 June 2019, including the one remaining Emma & Roe store.

Turning now to the FY20Q1 trading update.

We recently announced our first quarter trading update for FY20, with group same store sales up 11.9% against prior year. We are encouraged by these results, as the positive sales performance momentum continues from FY19. These results give us a strong foundation as we enter the all-important Christmas trading period.

We experienced strong sales performance across all markets, with Canada up 16.4%, New Zealand up 10.1% and Australia up 6.8%. We were particularly pleased with the strong sales performance in both Canada and New Zealand. The lift in Australian sales is also promising given the challenging retail environment.

Pressure on gross margin has started to alleviate with early signs of positive movement and a slight recovery from Q4 last year, though has not yet recovered to historic levels. There are many factors that impact our gross margin such as ongoing FX headwinds, the rising price of gold, and the volatile retail environment.

Our strategic initiative to focus on Canadian productivity has delivered strong sales for the quarter with all store sales up 17.6%, against prior year. Our focus included a restructure of the retail operations team, the introduction of new retail leadership roles, the new operating model, product launches, a shift in key metrics, and the trial of a new retail bonus scheme.

Branded collections remain a focus for our business with sales representing 37.9% of total product sales, up from 32.5% for FY19.

Our store portfolio management remains a key priority with regards to negotiating existing leases, renewals and refurbishments. For the quarter, one new store was opened in Canada and three under-performing stores were closed in Australia, giving a total of 304 stores trading at the end of the quarter (including one remaining Emma and Roe store).

I will now hand back to Daniel to outline the key initiatives for FY20.

CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you, Andrew, for your commentary on the FY19 financial results and the Q1 trading update.

As flagged earlier, I'm going to take you through some of the key initiatives for FY20 which will underpin the future success of Michael Hill. These initiatives focus on strengthening the fundamentals of the business and building on the strategic priorities previously announced in August 2018.

Firstly, an unwavering focus on our Cost of Doing Business. Building on the initial \$5m annualised "cost out" program, Management has identified an additional \$5m cost reduction which will be delivered across FY20 and FY21. Furthermore, we have initiated a more rigorous approach to many key drivers of the costs in our business, and we are committed to more disciplined rigour across all company expenses.

You would have heard me previously discussing our second initiative, our retail operating model.

I'm passionate about a seamless implementation as I believe it is fundamental to the future success of Michael Hill. I am confident that delivering coherent and aligned merchandise, marketing, and retail experiences are critical to a sustainable future. I'm pleased to say that the implementation of a more sophisticated and integrated customer-focused operating model is well underway. This was ably demonstrated by our 40th birthday campaign in August, where the execution was outstanding, and our customers responded accordingly.

Following on from the operating model is a focus on retail fundamentals – this represents a significant opportunity. We have already started to introduce exciting changes in stores for our customers with a real focus on the customer journey, and visual merchandising. We know that foot traffic in store is challenging, so our focus will be on enhancing our brand, driving improved customer transaction frequency and conversion rates. All of this is retail 101 – and we make no apology for that – we have been absolutely consistent, unrelenting and urgent in our focus since I joined and we will continue that focus in the coming years.

Moving to our fourth initiative - Acceleration of the branded collections strategy.

As demonstrated in the second half of FY19, we have a clear pathway to drive exclusive Branded Collection sales to 50% over the coming years. Exclusivity is key – it represents both a sales growth and margin opportunity with existing customers, as well as an avenue to attract new customers to the Michael Hill brand. Branded Collections will be what differentiate us from our competitors....product that you can "ONLY buy at Michael Hill".

Our next initiative is The New Merchandise Rhythm, whilst part of our operating model generally, it deserves to be called out separately because of the importance of product to our business. New buying and planning processes are absolutely essential to driving product newness in our business and enhancing relevance to our customers. A focus on margin mix and margin outcomes via deliberate product selection will be delivered across multiple strategies.

Moving on to Canadian productivity. As outlined earlier this year, Canada presents a compelling opportunity from a productivity perspective. Canada has been a real success story for the brand over the last 10 years, generally opening 8 to 10 new stores every year. But they are a long way below the productivity levels of Australia and New Zealand and they need additional support. A plan to drive increased sales per square metre and sales per hour has been developed and we are implementing these initiatives to deliver improved results over the course of FY20.

And finally, our last initiative relates to "online as a core focus". In our current retail environment, it is essential to improve our existing online customer experience and expand our digital platform, while building capability for the future. Improving our user experience across search, taxonomy, and check-out, will drive increased sales. And coupled with new and exclusive product for our online channel, will support continued double-digit growth in this all-important channel.

Just before we move to the official business of the meeting, I would like to highlight that we recently celebrated two milestones for the company, the 40th birthday of the Michael Hill brand and the opening of our new flagship store here in Brisbane. As shareholders, I encourage you to visit the Queen Street store and experience the new contemporary direction for Michael Hill. We have also used this store opening as a key platform for our first foray into Lab Grown Diamonds, another exciting opportunity for our business.

Overall, we are investing our energies into evolving an iconic brand with a rich heritage, into one that is relevant, modern and differentiated and which can adapt to a changing retail environment.

We are enthusiastic about the year ahead as we focus on retail fundamentals to build on the positive sales momentum from last year, drive greater operational efficiencies and restoring our gross margin levels through a sustainable model to deliver long-term growth.

I'd like to conclude with a sneak preview of our new and exciting product hitting stores over the coming weeks as we build up for the all-important Christmas trading period.

That brings our business update to an end.