

ASX AND NZX ANNOUNCEMENT

RETURN TO TRADE DEMONSTRATES RESILIENT BUSINESS WELL POSITIONED FOR THE FUTURE

Fourth Quarter Trading and Business Update

15 July 2020

Having temporarily closed all stores in late March 2020 due to COVID-19 restrictions, with a staggered reopening of stores since May 2020, Michael Hill International Limited (ASX/NZX: MHJ) today announces its fourth quarter trading results, along with a business update.

KEY POINTS

- **Robust return to trade during staggered reopening of stores** – Adjusted¹ same store sales for the quarter were down 4.1%, against prior year, underpinned by initiatives gathering momentum across the business.
- **Digital sales reach new highs** – For the quarter, online sales were up 193% against prior year, delivering some of the highest weeks in the Company's history. In the quarter, a number of digital initiatives were accelerated and delivered. For the year, digital channels represented 4.6% of total sales (FY19: 2.8%).
- **Margin improvement** – FY20Q4 margin up 200 bps against prior year, to deliver flat profit dollars for the quarter on an adjusted¹ same store sales basis.
- **Full year sales** – Adjusted¹ same stores sales for the year were up by 2.7%, against prior year. For the nine month period to FY20Q3, adjusted¹ same store sales were up 3.6%, against prior year.
- **Resilient balance sheet** – Net debt lower than FY19 close, through controlled working capital management and inventory levels in line with prior year.
- **Branded collection sales growth continues** – Branded collections represented 39.9% of total product sales for the quarter, resulting in 37.3% of total product sales for FY20 (FY19: 32.5%).
- **Continued store portfolio management** – 11 under-performing stores were permanently closed during the quarter (7 in Australia, 3 in New Zealand and 1 in Canada), with a network total of 290 stores across all markets.

Decisive Fiscal Management

The Company took clear and decisive action to preserve cash with an absolute focus on cost disciplines, inventory and capital management during the crisis and recovery period.

- All discretionary operating spend was paused with planned capital expenditure cancelled or deferred, other than the completion of our cloud enabled ERP platform and one flagship refurbishment.
- Across the three markets the business stood down all retail team members from late March, with a gradual return to work as stores reopened. In addition, over 100 support office team members were stood down. The Company moved swiftly to access government wage subsidies across the three markets. Michael Hill recognises and appreciates the ongoing support of these national programs for both our business and the wider community.
- Following on from the margin improvements in the first nine weeks of FY20Q3, management's focus on margin continued through FY20Q4. As the business reopened, strategies across loyalty, digital-first and retail fundamentals underpinned margin improvement in the business.
- Furthermore, the Company has taken decisive action to emerge with a modernised agile operating structure. Reflecting on lessons learnt during COVID-19, and the ongoing transformation to a digital omni-channel retailer, the business has undertaken a restructure, delivering a leaner support office.

The Company acknowledges the impact on our team members and customers during these unprecedented times and thanks all members of the Michael Hill community for their continued support and understanding.

Digital First

The Company's intense focus on digital channels accelerated through FY20Q4.

- During the quarter, the online channels delivered significant sales growth of +193%, with margin growing at an even faster rate.
- This increased performance was supported by the accelerated delivery of a number of digital initiatives, including enhanced website and user experiences; launch of virtual appointments and virtual selling; advancements of our WeChat platform.
- The Michael Hill loyalty program *Brilliance* initially launched digitally in October 2019, and continues to go from strength to strength with membership now exceeding 165,000. Members receive exclusive membership pricing, welcome, birthday and anniversary rewards, as well as exclusive early access to company promotions.

Following the completion of our ERP upgrade, planning is now underway for further omni-channel enhancements enabling click and collect, ship from store, drop ship and marketplace functionality.

Global Store Network

In early May 2020, based on Government health guidance, the Company started progressively reopening stores with the majority of our global network open by early July.

Australia: From 9 May 2020, the Company trialed store openings to test instore safety protocols and gauge customer demand. Following the trial, a number of store tranches swiftly opened across Australia, with most stores open by the end of May 2020. Unfortunately, the recent outbreak of COVID-19 in Victoria has required the Company to temporarily close 7 stores – further monitoring is continuing.

New Zealand: In mid-May 2020, our New Zealand stores opened in two tranches over two consecutive weekends.

Canada: From 30 May 2020, based on local provincial guidance, the Company progressively reopened stores, starting initially in the Western provinces, then moving across the country. With Ontario more heavily impacted by COVID-19, many of the stores did not reopen until the first weekend of July.

The Company has long and established relationships with landlords in all markets and values the support received in returning to trade. Through the strength of these relationships, the Company has negotiated rental abatements and deferrals with many landlords. Negotiations continue with a number of landlords, and the Company remains confident that appropriate commercial outcomes will be reached. The company is constantly reassessing our global store network, and monitoring lower foot traffic, which in time could see further store closures.

Commenting on the result, Michael Hill International Limited, CEO Daniel Bracken said:

"Michael Hill has emerged from the pause in store trading as a leaner, stronger and more focused business. I'm very proud of the professionalism demonstrated by all our people over the last four months as we navigated the complexity of a global pandemic - whether it be the health and safety of our team and customers, new instore protocols, the unwavering focus on costs or our resilient and robust return to trade. I'm particularly pleased with our digital performance over this period, as well as the continued success of our loyalty program, Brilliance. With the implementation of the new ERP platform, together with the executives I am excited by the opportunities to enhance our omni-channel offering."

"The reopening of our store network has seen very pleasing sales and margin performance despite lower foot traffic. This reflects the dedication of our team members, the continued engagement of our loyal customers and the importance of the strategic progress we have made over the last 12 months."

"Additionally, we have continued to evaluate and assess our business, the learnings from which have been reinforced by some aspects of the global pandemic. This has allowed us the opportunity to reimagine and modernise our operating model to become a more relevant omni-channel retailer of the future. These decisions have been necessary and appropriate to ensure the health and resilience of the business and to put us in a stronger position for the future. Sadly, this has resulted in a number of non-customer facing team members departing the business. While our aim throughout has been to preserve as many jobs as possible, those who leave us will be treated with care, dignity and respect and we will be providing as much support as we can through these challenging times."

"There is no doubt that economic uncertainty will continue, given future government stimulus packages in all markets remain unclear, and ongoing volatility in consumer confidence is likely. As recent circumstances in Victoria have demonstrated, further COVID-19 outbreaks pose additional risks. With these risks in mind, Michael Hill has moved swiftly in addressing our operating model and associated cost base. Having said this, the Company has experienced a solid start to the 2021 financial year, with all markets and channels ahead of prior year."

SEGMENT BREAKDOWN

- The Australian segment adjusted¹ same store sales were down by 8.1% for the quarter. There were 155 stores trading at the end of FY20Q4 (FY19Q4: 168).
- The New Zealand segment adjusted¹ same store sales were down by 10.9% for the quarter. There were 49 stores trading at the end of FY20Q4 (FY19Q4: 52).
- The Canadian segment adjusted¹ same store sales were up by 38.1% for the quarter. This is largely due to strong online sales and delayed opening of stores. There were 70 of the 86 stores trading at the end of FY20Q4 (FY19Q4: 86).

Revenue for retail operations from the sale of goods and services for **FY20Q4**:

The following figures are in Australian dollars		Last Year*	This Year*	% Var
Total adjusted ¹ same stores	AUD	53,783,272	51,600,088	-4.1%
Total all stores	AUD	133,130,618	52,504,336	-60.6%
Adjusted¹ same store figures in local currency				
Australia same stores	AUD	34,847,712	32,034,743	-8.1%
New Zealand same stores	NZD	14,254,100	12,695,250	-10.9%
Canada same stores	CAD	5,164,853	7,133,373	38.1%
All stores figures in local currency				
Australia all stores	AUD	72,455,983	33,057,006	-54.4%
New Zealand all stores	NZD	28,848,872	12,975,930	-55.0%
Canada all stores	CAD	31,170,861	6,699,435	-78.5%
Exchange rates used for FY20Q4:				
New Zealand		1.06	1.07	
Canada		0.94	0.92	

Revenue for retail operations from the sale of goods and services for **Full Year FY20**:

The following figures are in Australian dollars		Last Year*	This Year*	% Var
Total adjusted ¹ same stores	AUD	457,116,789	469,326,172	2.7%
Total all stores	AUD	562,549,817	485,671,362	-13.7%
Adjusted¹ same store figures in local currency				
Australia same stores	AUD	256,485,033	256,847,297	0.1%
New Zealand same stores	NZD	101,426,045	103,902,066	2.4%
Canada same stores	CAD	100,561,785	102,880,317	2.3%
All stores figures in local currency				
Australia all stores	AUD	312,778,394	266,288,812	-14.9%
New Zealand all stores	NZD	119,691,433	106,665,617	-10.9%
Canada all stores	CAD	130,111,329	106,369,226	-18.2%
Exchange rates used for Full Year FY20:				
New Zealand		1.06	1.05	
Canada		0.95	0.90	

¹ Adjusted same store sales reflect sales through store and online channels on a comparable trading day basis and are unaudited.

The above figures for all store sales represents eleven months sales results with accounting adjustments plus June 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 (for Australia and New Zealand for the full year and for Canada up to February month end, given the delayed opening of return to trade of the Canadian stores network). 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.

* 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 290 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).

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Disclaimer

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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.