

ASX AND NZX ANNOUNCEMENT FY2022 FULL YEAR RESULTS MICHAEL HILL DELIVERS RECORD PROFITS

29 August 2022

Michael Hill International Limited (ASX/NZX: MHJ) today announced its full year financial results for the 52-week period ended 26 June 2022.

Key Financial Results

- **Group operating revenue increased by 7.0% to \$595.2m** (FY21: \$556.5m), with ~10,000 lost store trading days in each of FY22 and FY21.
- **Comparable earnings before interest and tax (EBIT) increased by 11.1% to \$62.9m** (FY21: \$56.6m).
- **Statutory net profit after tax increased by 13.9% to \$46.7m** (FY21: \$41.0m¹).
- Group gross margin increased by 200 bps to 64.7% (FY21: 62.7%), underpinned by our strategic initiatives.
- Healthy inventory levels to support elevated sales at \$181.5m (FY21: \$171.2m).
- Balance sheet benefited from strong operating cashflows and sale of the Canadian credit book, resulting in a closing cash position of \$95.8m (FY21: \$72.4m).
- Final dividend of AU4.0 cents per share declared, delivering total dividends for the year of AU7.5 cents per share.
- Board announces launch of an on-market share buy-back of up to 5% of the Company's issued capital.

Operational Performance

- **Group same store sales were up 8.0%** for the year, with Canada +11.3%, New Zealand +8.9% and Australia +4.2%.
- **Digital sales increased by 23%** to a record \$42m, representing 7.1% of total sales, up from 6.3% last year.
- New pure play brand **Medley delivered over \$1m** in sales for its first full year of trade.
- Loyalty strategy continues to deliver with 76% of sales from members – **Brilliance by Michael Hill now over 1.4m members** (FY21: ~800,000).
- Extensive H1 temporary store closures in NSW, VIC and Auckland, culminated in 10,020 lost trading days for the year (FY21: 10,447).
- One new store opened and six under-performing stores were closed during the year, giving a network total of 280 stores at year end (FY21: 285).

Current Trading Update

- In the first eight weeks of FY23, the Company has delivered strong early performance, with Group all store sales up 13.4% against the same period in FY21 (a more meaningful reflection of current performance, due to temporary store closures in FY22).

Commenting on the announcement of the Company's full year results, Managing Director & CEO Daniel Bracken, said:

"I'm absolutely delighted by our outstanding results, delivering record sales, gross margin, and profit, especially considering the considerable disruptions we faced across Australia and New Zealand in the first half. A key highlight was our ability to grow profit faster than sales, with gross margin expansion driven by strategic initiatives across product, stores, digital and loyalty. These results demonstrate that we have successfully shifted the emphasis from transformation to growth, as we continue to elevate and modernise the Michael Hill brand."

"I am particularly proud of our people and the culture that we continue to build at Michael Hill – a high performance team across all levels, with an energy and passion that underpins our growth agenda. This culture is best evidenced by the sensational performance from our Canadian team in FY22 delivering huge lifts in productivity, sales and margin."

FY22 – Group Business Performance

The Group reported comparable earnings before interest and tax (EBIT) of \$62.9m for the year ended 26 June 2022 (FY21: \$56.6m) an increase of \$6.3m year on year, driven by a combination of strong sales growth and margin expansion.

For the year, the Company delivered same store sales growth of +8.0% and gross margin increased by 200 bps to 64.7% for the group. Since FY19Q3, the Company has achieved twelve quarters of same store sales growth. These continued strong results demonstrate the success of the Company's strategic transformation and the increasing strength of the brand during more than two years of significant global disruption.

During the year, the Michael Hill global store network suffered 10,020 lost store trading days (FY21: 10,447) due to a combination of government mandated lockdowns and COVID impacting store teams. Despite these disruptions to trading conditions and the global store network, total revenue grew by 7.0% to \$595.2m (FY21: \$556.5m) as the Company continues to elevate and modernise the brand and transform the customer journey.

The Company's digital businesses delivered another record year with sales of \$42m, now representing 7.1% of total sales. During the year, the Company successfully launched "click and collect" in all three markets, and rolled out "ship from store" across our global network, further enhancing the Company's omni-channel ecosystem. The Company's marketplace strategy has progressed in all its existing markets, with activation in Australia (The Iconic, Westfield Direct), New Zealand (The Iconic) and Canada (The Bay).

Prior to the key Christmas trading period, the business opened its Canadian 3PL distribution centre in Ontario, creating a cost-efficient flow of inventory from vendors, improving speed of delivery to customers and ensuring reliable continuity of supply and optimal stock levels.

During the year, the product range continued to evolve in line with the elevated brand journey including the successful relaunch of the Company's premium bridal offering – *Sir Michael Hill Designer Bridal* collection. Demonstrating the increased focus on ESG, the Company expanded its distribution of laboratory grown diamonds to all stores globally, providing customers with a certified Sustainable and Climate Neutral choice. Additionally, the Company also launched its De Beers Code of Origin Diamonds collection to all stores, demonstrating a deep commitment to social and environmental responsibility.

Supporting the Company's ongoing growth agenda, our strategic increase in ATV and elevated product offerings, the Company made considered investments in core inventory, which saw year-end stock holdings of \$181.5m (FY21: \$172.2m).

The Company's balance sheet has benefited from strong operating cashflows, delivering a year end cash position of \$95.8m (FY21: \$72.4m) and nil debt. During the year, the Company successfully sold its in-house Canadian credit book, delivering cash proceeds of \$14.2m, while also launching a long-term partnership with Flexiti Financial Inc, to provide a new enhanced consumer credit proposition.

During the year, the Company opened one new store in Australia and closed six under-performing stores across the network (AU:4, NZ:1, CA:1), resulting in 280 stores at year end (FY21: 285).

Segment Performance

FY22 was another year of COVID disruption for our retail network, with significant first half store closures in both Australia and New Zealand, and the impacts of Omicron across all countries in the second half. Despite these disruptions, all markets delivered strong results:

Australia

Same store sales increased by 4.2%, however significant temporary store closures and the closure of four under-performing stores led to a decline in retail segment revenue by 2.8% to \$303.4m for the year. This result is a testament to the resilience of the Australian team, new leadership and the Company's strategic initiatives. The government mandated store closures across Victoria, South Australia, Australian Capital Territory and New South Wales, resulted in 7,551 lost store trading days (FY21: 3,458) during the year.

As well as a strong sales performance, the segment also delivered expanded gross margin for the year to 64.8% (FY21: 62.1%), the country's highest margin in the last five years.

During the year, one new store opened, and four under-performing stores closed, resulting in 147 stores at year end (FY21: 150).

New Zealand

Same store sales increased by 8.9%, which was a particularly strong result, but temporary store closures through the year did see a decline in retail segment revenue of 1.6% to NZ\$125.1m for the year. This result was underpinned by strong retail metrics, omni-channel initiatives, and the Company's strategic agenda. The government mandated store closures, predominantly in the Auckland region, resulted in 2,241 lost store trading days (FY21: 464) during the year.

Gross margin for the year was 63.4% (FY21: 62.0%), a strong year on year performance, and significant improvement on both FY19 and FY20.

During the year one store closed, resulting in 48 stores at year end (FY21:49).

Canada

Same store sales increased by 11.3%, and retail segment revenue increased by an impressive 34.8% to CA\$159.7m for the year. This is a record result for Canada, supported by a number of strategic initiatives, along with reinvigorated leadership driving a significant lift in productivity and team engagement. There was minimal temporary store disruption during the year with only 228 lost store trading days (FY21: 6,525).

In addition to a record sales result, the segment also achieved a record gross margin for the year of 64.9% (FY21: 61.3%), underpinned by an absolute focus on retail fundamentals and productivity metrics.

During the year, one under-performing store was closed, resulting in 85 stores at year end (FY21: 86).

Capital Management – Dividends, Share Buy-back and Investment Update

Taking into consideration the Company's performance and strength of the balance sheet, the Board has decided to declare a final dividend of AU4.0 cents per share, unfranked, fully imputed with conduit foreign income.

This delivers a total dividend for the year of AU7.5 cents per share, representing ~67% of adjusted annual NPAT, and at the higher end of the Company's recently revised Dividend Distribution Policy target range of 50% to 75%.

Subject to the Company's ongoing trading performance and growth plans, the Board's intention is for dividends to remain at the higher end of the target range.

Furthermore, the Board is also pleased to announce the launch of an on-market share buy-back of up to 5% of the Company's issued capital, funded from existing cash reserves. The buy-back is expected to commence in September 2022. The total number of shares to be purchased under the buy-back will be dependent on business and market conditions.

In addition to the above, the Company still retains sufficient balance sheet strength and cash reserves for deployment into new earnings accretive organic growth initiatives and to also pursue acquisition opportunities in the jewellery sector, which meet our strict strategic and investment criteria.

Strategy Update – emphasis on growth

Much of the Company's strong performance can be attributed to the strategic transformation and elevation of the brand, along with overarching emphasis on sales and margin growth. The strategic framework underpins the future growth of the business, is customer-led and continually evolving, which is best demonstrated with the introduction of a new pillar dedicated to "Sustainability".

1. Brand & Loyalty

The strategy to elevate and modernise the Michael Hill brand underpins the overarching vision for the business. Highly engaging and emotive marketing campaigns with an emphasis on product, quality and craft, are leading the transition away from price and promotion, towards emotional long-term customer relationships. Simultaneously, the **Brilliance by Michael Hill** loyalty program is proving to be a key lever for growth and customer engagement. The program has increased by more than 600,000 members in the year, and provides the business with essential data to drive more frequent and more profitable customers. Both brand and loyalty are key to driving medium to long term sustainable growth in both sales and margin for the group.

2. Digital & Omni-channel

Michael Hill's digital transformation continues to gather pace delivering another record year in FY22. Strong performances on the Company's direct to consumer websites were driven by improved customer experience, higher traffic and increased conversion rates, and now represent over 7% of total Company sales. The successful deployment of "click and collect" and "ship-from-store", now available in all stores globally, enhanced our omni-channel capabilities as the Company continues its customer-led digital transformation journey.

3. Retail Fundamentals

Bricks and mortar retail is at the core of the Michael Hill business, driving more than 90% of the Company's sales. Elevating the in-store experience across visual presentation and customer engagement have delivered considerable increases in gross margins, conversion rates and ATV. An unwavering focus on people and performance, operational excellence, and effective labour management underpin our retail productivity which has seen significant lifts in all markets. A new senior leadership structure is now firmly in place across all markets and delivering strong results.

4. Product Evolution

Product evolution is at the centre of a customer-led retail strategy, and is critical to achieve sales and margin growth. Laboratory grown diamonds are gaining momentum in the business, delivering increased quality and higher margins while providing customers with a certified Sustainable and Climate Neutral choice. Elevated quality and craftsmanship are essential to our aspirational brand journey, and this will be delivered through the evolution of our supply chain, and further investment in the artisanal capabilities of our Australian manufacturing facility. During the year, the business commenced a phased deployment of a new comprehensive merchandise planning platform to improve buying processes, margin optimisation, product ranging and inventory management. The Company's ongoing focus on product mix continues to be a key enabler for sustained margin expansion. Product newness is critical to achieve higher inventory turn and frequency of purchase.

5. New Territories & Services

As the Company pivots from transformation to growth, the opportunity to stretch the brand into new territories and services is a key focus. Through the course of the year, the Company has executed its marketplace strategy across its three core segments, partnering with The Iconic in Australia and New Zealand, and The Bay in Canada. Additionally, the Company is now focused on extending its Canadian website to the currently untapped Quebec market, and in the near future launching international shipping to all countries from our websites. The business is also well underway in developing a digital eco-system with a number of new revenue driving service offerings across bespoke design, sustainability, and financial services.

6. Cost Conscious Culture

The Company made great progress with its global supply chain strategy, with the successful delivery of a new Canadian 3PL distribution centre – lowering input costs and duties while significantly improving customer experience and delivery times. Additionally, in-market New Zealand warehouse capability was activated during the second half. The Group's credit strategy was further enhanced with the sale of the in-house Canadian credit book and partnering with a specialist third party consumer credit provider across all Canadian stores, and in a first for the Company, an online long-term credit offering. Importantly, the Company's embedded cost conscious culture maintains an absolute focus on cost discipline, inventory and working capital management.

7. Sustainability

Michael Hill is elevating its strategic focus on ESG, launching our 2030 vision centred around **People, Product and Planet**. Underpinned with detailed goals and milestones, the Michael Hill 2030 ESG vision aims to transform; how we source and manufacture our products; how we impact our planet; and how we improve peoples' lives across our entire value chain. We are committed to bringing change in how we operate in order to drive forward sustainable practices that benefit our customers, our planet and future generations and aim to move our business and influence the broader jewellery industry toward a more sustainable, innovative and responsible future.

Current Trading Update

In the first eight weeks of FY23, the Company has delivered strong early performance, with Group all store sales up 18.5% against FY22. As this period in FY22 was impacted by store closures in Australia, a more meaningful reflection of the FY23 all store performance is up 13.4% against the same period in FY21 (total stores FY23: 280 vs FY21: 289). In addition, gross margin has also remained strong in the first eight weeks of trade.

Managing Director & CEO of Michael Hill International Limited, Daniel Bracken said:

“Pleasingly, FY23 has started with both strong sales and gross margin performance. Our current bridal campaign has been extremely well received by customers and clearly demonstrates our commitment to brand elevation, our heritage, quality and craftsmanship. With the significant impacts from Covid behind us, we are still mindful of potential economic disruptions. That being said, over the last few years, we have demonstrated the resilience of our business, strength of our brand and determination of our team.”

“Importantly, the business will continue its growth agenda, elevating our core business and at the same time, deploying new earnings accretive organic growth initiatives, and pursuing acquisition opportunities in the jewellery sector.”

Important Notes

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.

The Company previously released quarterly trading updates which was particularly important during the uncertain COVID trading period. **Given that trading conditions have normalised, the Company has decided to move to half yearly trading updates.** This is consistent with market practice and in line with the Company’s statutory requirements.

It should be noted that same store sales reflect sales through store and online channels on a comparable trading day basis and a proportional allocation of Professional Care Plan (PCP) revenue and accounting adjustments, and are unaudited. Same store sales do not include permanent or temporary store closures on a same trading day basis. In addition, comparable EBIT is unaudited, excludes the impact of AASB16 *Leases* and IFRIC SaaS guidance, and with normalisations.

¹ Restated as required for changes introduced by IFRIC Agenda Decision – Configuration or Customisation Costs in Cloud Computing Arrangements.

Analyst and investor call

An investor briefing on the results will be held on Monday 29 August 2022 at 9:30am (AEST). Please note that the webcast page will not be available until 9:00am (AEST) and it is advised that you join at least 5 minutes before the meeting commences.

Webcast link: <https://web.lumiconnect.com/339859459> If prompted, please enter the meeting ID: 339-859-459

Participants are encouraged to register online in advance. Please use the link:

<https://reg.lumiengage.com/michaelhill2h22/register>

Once registered you will receive a confirmation email containing a calendar invite to add to your personal calendar.

This announcement is authorised for release by the Board.

– 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 280 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).

For more information:

investor.michaelhill.com

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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. Accordingly, you are cautioned not to place undue reliance on any forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

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.

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